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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

THE AMERICAN SECURITY COMPANY,
Petitioner,

v.

SHATTERPROOF GLASS CORPORATION

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

The American Securit Company, petitioner, prays that a writ of certiorari issue to review the judgment of the Court of Appeals for the Third Circuit affirming a summary judgment of the District Court for the District of Delaware dismissing petitioner's complaint for patent infringement.

Opinion Below

The opinion of the court below (31)* is reported at 268 F. 2d 769 and unofficially reported in 1959 Commerce Clearing House Trade Cases ¶ 69,402 and 122 USPQ 167. The opinion of the District Court for the District of Delaware on summary judgment (R. 164a) is reported in 154 F. Supp. 890 (1957), 1957 Trade Cases ¶ 68,802, and 114 USPQ 259. Other opinions of the District Court (R. 211a, 225a) are reported in 166 F. Supp. 813 (1958); 118 USPQ 526 and 119 USPQ 49.

*References without a letter are to the appendix to this petition. References to Appellant's Appendix in the court below are "R. 1a" and to Appellee's Appendix "R. 1b".

JURISDICTION

The judgment of the Court of Appeals was entered on July 14, 1959. (49) A petition for rehearing was denied on August 24, 1959. (50) The jurisdiction of this Court is invoked under 28 U. S. C. Section 1254.

QUESTIONS PRESENTED

I. Relating to patent misuse in general

1. Is it per se a patent misuse for the owner of a group of patents, all of which relate to the manufacture of a single product, to include all of the patents in a single license agreement ("package") for a single royalty.

a. Is this a misuse regardless of the nature and character of the patents, their interrelation, or whether one is basic and others complimentary.

b. Is this a misuse without regard to a consideration of the effect of the practice on competition in the field of the patent.

c. Is this a misuse without consideration of the relevant market for the product made by use of the patents.

2. Is it per se a patent misuse for such a patent owner to charge a single royalty for a group of patents, which permits the licensee to use "any, some, or all" of the patents.

a. Is it a misuse for such a patent owner to decline to set a royalty for some of the patents lower than the royalty charged for all.

3. Where such a patent owner has granted several licenses to persons who requested a license under all the

patents, is it per se a misuse for such patent owner to charge the same royalty to a person who requests less than all the patents.

4. Can a patent owner be found guilty of unlawfully extending a patent monopoly by declining to agree to a royalty requested by a prospective patent licensee, when the prospective licensee had a right to apply to an antitrust court to determine a reasonable royalty for the desired patents.

II. Relating to Consent Decrees

1. In a patent infringement suit where the defense is patent misuse based upon alleged violation of an antitrust consent decree, should it be the duty of the infringement suit court to refer the question of violation to the court which entered the antitrust decree.

2. Does one district court have jurisdiction to rule that a party to an antitrust decree in another district court has violated that decree.

3. Where a district court has suspended proceedings in an infringement suit at the request of the United States, which had petitioned the antitrust court to enjoin the patent owner from suing the infringer, may the district court dismiss the infringement action after the antitrust court has declined to enjoin the suit.

4. Where a court which has entered an antitrust decree has specifically ruled that a patent owner's licensing practices do not violate the decree, are other courts bound to accept that ruling.

5. Can any district court find a violation of a consent decree for engaging in package licensing, where any per-

son, including the United States, had an absolute right to request the antitrust court to enjoin the allegedly improper practice.

6. Can a patent owner be found guilty of violating a consent decree by requesting an applicant to accept a package license, where the patent owner had no power to prevent the use of its patents, and any person could apply to the antitrust court to fix a reasonable royalty on the patents wanted.

7. Where a consent decree contains the standard provisions for compulsory licensing at a reasonable royalty which may be fixed by the antitrust court, is a patent owner who has issued several identical licenses providing for the use of all its patents for a fixed royalty, per se guilty of violation of the decree for declining to offer a later applicant a lower royalty for use of less than all the patents.

8. Does the issuance by petitioner of its standard form license constitute a violation of the consent decree.

III. Relating to Summary Judgment

1. May a district court enter a summary judgment of patent misuse extending a patent monopoly by package licensing (a) without examining the patents, or determining their nature and character, their interrelation, and whether one is basic and the other complementary, and (b) without regard to a consideration of the effect of the alleged practice on competition in the field of the patent, and the relevant market for the product.

2. May a district court enter a summary judgment of violation of an antitrust consent decree without such an examination.

3. May a district court enter a summary judgment on a finding that a patent owner has declined to license less than all its patents where the record shows the patent owner did in fact offer to license less than all, but for the same royalty.

4. Is it proper for a district court on summary judgment to find certain ultimate facts, where a court of appeals in another circuit has concluded from the same evidence that genuine issues of material fact exist requiring a trial, and another district court after a hearing on the same evidence has found the ultimate facts to the contrary.

STATEMENT

Petitioner, The American Securit Company, owns many patents on the tempering of glass. Tempered glass is glass which has been strengthened by unique heat treatment. Shatterproof Glass Corporation, defendant below, is a Delaware corporation, with its principal place of business in Detroit, Michigan, and having no place of business in Ohio. It manufactures glass capable of being tempered.

On October 30, 1948, a consent decree (sometimes referred to as the "Toledo decree") was entered by the District Court of the United States for the Northern District of Ohio, Western Division, in Civil Action No. 5239, in an action brought by the United States against Libbey-Owens-Ford Glass Company and eight other defendants, including petitioner. (R. 37a, 164a) Section XIV of the consent decree required each defendant to grant a license under "any, some, or all" of its patents (petitioner then had 41 patents and one application), subject to the following conditions: (a) an applicant must apply in writing for a license, (b) the licenses must be non-discriminatory; (c) if petitioner and an applicant cannot agree on a royalty

rate, the applicant may ask the Ohio court to fix a reasonable royalty, (d) the license must provide that the licensee may cancel after one year, (e) the licensee can contest validity at any time, (f) the Attorney General of the United States was authorized to participate in any hearing for a determination of a reasonable royalty. (R. 187a, 1b-11b, 1948 CCH Trade Cases ¶ 62,323)

In March 1949, petitioner granted to applicant Libbey-Owens-Ford Glass Company (LOF) a package license of all petitioner's 42 patents for a royalty of 2¢ per square foot for glass manufactured and sold using any of the patents. At the same time, Pittsburgh Plate Glass Company (PPG) applied for and received a license under 40 patents for the same 2¢ royalty. (R. 255a)

Before the LOF and PPG licenses were executed, petitioner requested the Antitrust Division of the Department of Justice to discuss the proposed licenses, which request was refused. (R. 255a, 256a)

In July, 1950, petitioner issued to Croname, Inc., a license at the same 2¢ royalty on 37 patents, being all the patents then owned by petitioner. This license was then printed, designated "Standard License Contract" and offered generally to the trade. (R. 256a)

Between 1949 and 1955 approximately twenty companies discussed with petitioner its standard license or a similar license, and seven companies executed the standard licenses at the 2¢ royalty. (R. 243a, 256a)

From 1951 to 1955 there was a voluminous exchange of correspondence between petitioner and Shatterproof Glass Corporation. (R. 45a-84a, 256a)

On March 4, 1953, Shatterproof requested petitioner (R. 70a) to state the royalty rate for all petitioner's patents and patent applications and for four groups or packages: group I contained all petitioner's patents, group II contained all patents to be issued on pending applications,

group III contained nine patents listed by number, and group IV called for patents issued on applications.

On March 19, 1953 petitioner offered the same license as already enjoyed by five named licensees (R. 73a), stating "under the non-discriminatory clause of the Toledo decree we are precluded from varying the terms of the various licenses that we grant, although I presume that if you wish your licenses restricted to certain specified patents among those listed in the schedule (which is a complete list of our patents) we are able to meet your wishes. However, as the royalty will be the same whether one or more patents are used by the licensee none of the above companies have desired elimination of any of the above patents from their licenses."

The royalty rate offered Shatterproof was 2¢ per square foot, the same as was being paid by all licensees. (R. 73a-74-a) After eight-months' delay, on December 29, 1953 Shatterproof demanded a statement of the royalty attributable to each patent "in the group," not specifying what group.

On January 5, 1954 petitioner informed Shatterproof (R. 77a) that it would issue a license on any individual patent at a royalty of 2¢ per square foot. On February 2, 1955 Shatterproof stated that petitioner had violated Sections XIV-A and C of the Toledo decree in that it had "refused to assign royalty rates to individual patents." (R. 84a)

Shatterproof constructed the infringing apparatus and completed it in September 1952. (R. 112a) At that date it commenced selling the product made by the infringing apparatus. (R. 115a)

Petitioner filed the complaint in the District Court of Delaware on March 7, 1955 (R. 21a), and alleged in Counts I to IV infringement of four patents belonging to petitioner, and alleged in Counts V and VI unfair competition. The answer was filed May 10, 1955 (R. 29a), denied the mate-

rial allegations of the complaint, and alleged as affirmative defenses that petitioner was barred from enforcing its patents because of misuse by illegally extending its patent monopoly and by violation of the consent decree.

Shortly after the answer containing these defenses was filed, Shatterproof filed an application in the Ohio Court on July 25, 1955 seeking a determination by it of a reasonable royalty for the patents sued upon in the instant action, for an order requiring petitioner to comply with the Toledo decree, and for such other relief as the Ohio Court deemed proper. (R. 212a, 19b)

In the Ohio Court, Shatterproof requested among other things (1) that the Ohio Court declare Shatterproof entitled to relief under the consent decree from petitioner's charges of infringement, (2) that the Ohio Court set a reasonable royalty under the four patents, and (3) that petitioner be compelled to apportion the royalty rate of 2¢ per square foot among individual patents or groups of patents.

On October 6, 1955 the United States filed in the Ohio Court a "Petition of the United States for Order for the Construction and Enforcement of the Final Judgment" in which it alleged that the action of petitioner in bringing the instant infringement suit against Shatterproof was barred by and constituted an attempt to defeat the Toledo decree. It prayed that petitioner be permanently enjoined from taking any action in any court to prevent an applicant for a license from exercising any right conferred by the Toledo decree. (R. 213a, 21b)

On October 7, 1955, the United States intervened in the Delaware Court and filed a "Representation of the Interest of the United States" in which, among other things, it asked the Delaware Court to refrain from taking any further action pending a decision by the Ohio Court upon the petition of the United States filed therein. (R. 87a, 213a) On

October 10, 1955, the Delaware Court entered an order staying action in the Delaware Court until after a hearing and determination by the Ohio Court of the petition of the United States. (R. 89a, 90a, 213a)

On October 19, 1955, after a hearing in the Ohio Court, Judge Frank L. Kloeb delivered an oral opinion in which he stated that Shatterproof had not filed its application in good faith, that it had "unclean hands," and Shatterproof having admitted infringing plaintiff's patents, he (Judge Kloeb) did not "believe the Decree was promulgated for the purpose of protecting a wrongdoer." (R. 102a) On December 13, 1955 the Ohio Court entered a formal order dismissing both the petition of the United States and the application of Shatterproof. (R. 92a, 214a) On February 8, 1956 the Ohio Court entered an order denying Shatterproof's application for a new trial. (R. 215a-216a)

On February 26, 1957, a hearing was had on Shatterproof's motion for a summary judgment. (R. 216a) On July 19, 1957, Judge Leahy rendered an opinion granting the motion for summary judgment (R. 164a, reported at 154 F. Supp. 890). In brief, Judge Leahy held that petitioner was barred from enforcing its patents against defendant because by its misuse of its patents it had illegally extended the monopoly of the patent grant and because it had violated provisions of the Toledo decree. (R. 164a-177a, 216a)

On July 15, 1955, petitioner filed suit in the U. S. District Court for the Southern District of Indiana, Terre Haute Division, Civil Action TH55-C-37, charging infringement against Hamilton Glass Company, Inc. (R. 190a) On July 3, 1957, the Indiana Court granted Hamilton's motion for summary judgment for the same reasons as the Delaware Court. (R. 196a-197a)

The Delaware Court did not enter an order, so petitioner could not appeal. Petitioner did appeal from the

Indiana Court Order. On April 24, 1958, the U. S. Court of Appeals for the Seventh Circuit reversed the Indiana Court order for summary judgment, and remanded the cause "for a trial and such other proceedings as may be proper."

On July 9, 1958, before the Delaware Court entered the order dismissing the complaint, petitioner filed in the Ohio Court a "Petition of the American Securit Company for Contruction of and Directions for Carrying out Final Judgment." On August 19, 1958, the Ohio Court entered an order directing the United States, Hamilton Glass Company, Inc., and Shatterproof, to show cause on September 16, 1958 why the petition of Securit should not be granted and an order entered in accordance with its prayers. (R. 218a)

On September 3, 1958 Shatterproof filed a motion for preliminary injunction in the Delaware Court to enjoin petitioner from further prosecuting its petition in the Ohio Court until termination of the action in the Delaware Court and the appropriate Courts of Appeal. The motion was heard by the Delaware Court on September 11, 1958. (R. 218a)

On September 15, 1958, Judge Edwin D. Steel, Jr. entered an order enjoining petitioner from any action in the Ohio Court

> "which will seek a determination, finding or any other type of adjudication or judicial expression against Shatterproof which is in conflict with any one or more of the following views expressed by Judge Leahy in The American Securit Company v. Shatterproof Glass Corporation, 154 F. Supp. 890 D. C. D. Del. 1957 * * *" (R. 221a-222a)

On September 22, 1959, Judge Steel entered an order dismissing Counts I to IV of the complaint on the basis of the decision of Judge Leahy. (R. 224a, 225a)

On September 16, 1958 Judge Kloeb held a hearing in the Ohio Court on Securit's petition (R. 237a). At the conclusion of the hearings, Judge Kloeb stated (R. 251a) (119 USPQ 86; 1958 CCH Trade Cases ¶ 69,147):

> "Gentlemen, I have given this matter considerable study in the last few days, such time as I could devote to it. I feel some step ought to be taken by this Court, not only to apprize The American Securit Company of its true position under the Consent Decree, but also to govern all other concerns that might in the future desire to use these patents or refrain from using them."
>
> * * * *
>
> "I think that an order may enter finding from the circumstances in this case that there has been no violation of the Consent Decree by the package licensing practice that has been followed by the Petitioner for the past ten years.
>
> "What other courts may determine is their business if they have the issue before them. This is the conclusion of this Court, and this Court has lived with this matter for the past ten years." (R. 253a)

On September 29, 1958 the Ohio Court entered an Order construing petitioner's licensing practices under the Toledo decree. (R. 254a; 119 USPQ 89-91)

This Order contained the following conclusions:

> "1. This Court has jurisdiction to consider the petition and enter an order of construction of the Consent Decree for the guidance of petitioner and all others who may be interested in petitioner's patents.
>
> 2. The grant by petitioner of a license to use all its patents for a flat royalty in a single document, does

not violate the Consent Decree, whether or not this be called a "package."

3. Petitioner did not violate the Consent Decree by advising an applicant it would not license an individual patent for less than the royalty charged for all its patents.

9. The objective of the Consent Decree was to prevent practices which violated the antitrust laws. None of the petitioner's licensing practices as set forth in its petition, and none of the provisions of its standard license contract violate the Consent Decree."

REASONS FOR GRANTING THE WRIT

Summary

The Third Circuit held that where petitioner had granted licenses to seven licensees for a flat royalty of 2¢ per square foot of tempered glass made by the use of any, some or all of its tempering patents, its refusal to grant Shatterproof a license to use only some of those patents at a lower royalty, was a patent misuse depriving petitioner of its right to sue for infringement. It also held this refusal was a violation of the compulsory licensing provisions of the Toledo consent decree, although Shatterproof had an absolute right to petition the Ohio Court to fix the lower royalty rate it desired.

The Third Circuit affirmed the finding of the Delaware court that petitioner had violated the consent decree, specifically disagreeing with the Ohio Court's finding that petitioner had not violated its decree.

The Third Circuit's decision is in conflict with decisions of this Court, the Fourth and Seventh Courts of Appeals, and the Ohio District Court.

The decision is of great importance as it affects the licensing practices of all patent owners. It shifts from the patent owner to the licensee the right to determine the royalty rate for use of a patent.

The decision is of great importance as it construes a standard form of antitrust decree. The Department of Justice has stated in 1956 there were 79 antitrust decrees providing for compulsory licensing. (Statement of Acting Assistant Attorney General Robert A. Bicks before the American Bar Association, August 26, 1959.

It is important that this court determine (a) whether only the court which entered an antitrust decree has the power to judge whether it has been violated, and (b) whether a construction of an antitrust decree by the court which entered it must be followed by other courts.

1. Conflict with Decisions of this Court.

The decisions of the Delaware and Third Circuit Courts conflict with the principles announced in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith*, 329 U. S. 637 (1947) and *Automatic Radio Mfg. Co.* v. *Hazeltine Research Inc.*, 339 U. S. 827 (1950).

The court below interpreted Judge Leahy's opinion as

> "concluding that Securit's policy of refusing to grant a license under one or more of its patents, unless a license was taken under all in the package for a fixed royalty, constituted (1) unlawful coercion and an illegal extension of patent monopoly and (2) a violation of the Toledo decree, and that for these reasons Securit was barred from enforcing its patent rights in the instant case." (36)

The Third Circuit posed the question for determination as follows:

> "Can it be said that the conjoint licensing by mandate of the patentee of two or more apparatus

> or process patents in the same art, whatever the nature of their disclosures, whether for basic inventions or mere minor improvements, will sustain a charge of a patent misuse?" (43)

The Third Circuit answered in the affirmative.

It is *important* to note that the courts below held the compulsory licensing of two or more patents is *per se* a patent misuse

(1) regardless of the nature of their disclosures;

(2) regardless of whether one is a basic invention and another a minor improvement;

(3) regardless of whether they are product, apparatus, or process patents;

(4) regardless of whether the package of patents are dominant in the art. (42-43)

The Third Circuit cited no reasons for its conclusion of patent misuse other than "Equity will not countenance such a result." (44) It stated specifically that it was not concerned with any question of violation of the antitrust laws, but did discuss antitrust cases based upon illegal tying clauses or unlawful extension of a monopoly. (43) Yet there was no evidence of the effect of petitioner's alleged practice on competition in the field of the patent, and no consideration of the relevant market for the product, in the production of which the patents were useful.

Neither the ownership of multiple patents nor joining them in a single license adds to the lawful monopoly already granted by Congress. In *Transparent-Wrap*, this Court held that tying improvement patents to the basic patent did not constitute an unlawful monopoly. (p. 647) *Morton Salt* v. *Suppiger*, 314 U. S. 488 (1942) involved an allega-

tion of violation of Section 3 of the Clayton Act by tying-in an *unpatented* product.

The mere tying together of two products, does not establish a violation of the antitrust laws, so the *mere* tying together of two patents cannot be a misuse which destroys the owner's right to receive royalties. In *Northern Pacific Railroad Co.* v. *United States*, 356 U. S. 1, 6 (1958) this Court pointed out that a tying arrangement may *not* be illegal if it does not restrain *some* trade, or have *some* effect on competition.

The nature of the patent right and its relation to the antitrust laws has been misunderstood. Since the antitrust law, as a general matter, frowns upon monopoly, while under the patent law Congress expressly grants a right to exclude others, phrases such as "restraint", "monopoly", "tie-in" and "block-booking" are inapplicable.

The purpose of the patent law to encourage invention, and reward the inventor, is not limited to the boundaries of a single issued patent. The rewards to inventors are intended to encourage research and competitive inventions. But the competition is defined in terms of competing technologies, not in terms of patents. A single competitive technology may encompass any number of patents. Whether the several claims of a single patent, or the various claims of a group of patents, are involved is immaterial. In some instances the Patent Office itself may be responsible for the issuance of several patents rather than one. Section 121 of the Patent Code is intended to make this matter largely discretionary with the Patent Office.

This Court carefully distinguished the monopoly rights accruing to a patentee under the patent laws from situations where the public interest is involved in monopolies or restraints of trade under the general laws, stating in *Transparent-Wrap* (p. 644):

> "One who uses one patent to acquire another is not extending his patent monopoly to *articles* gov-

> erned by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monoply to acquire another legalized monopoly." (italics supplied)

In *Transparent-Wrap,* Justice Douglas discussed *Morton Salt* v. *Suppiger,* 314 U. S. 488 (1942) and *Mercoid* v. *Mid-Continent,* 320 U. S. 661 (1944), and based the distinction on the fact that in those two cases the patentee reached through, beyond the licenses, to control the sale of the unpatented products.

Far from constituting a misuse, this Court said in *Hazeltine* (p. 834) "What it [the licensee] acquired by the agreement into which it entered was the *privilege* to use any or all of the patents and developments as it desired to use them" (italics supplied).

In every instance where the cases show the imposition of a penalty, or the use of injunction, or the condemnation of a contract, the licensor had used the license to reach through and beyond the license and its royalty, to impose some direct control on the use or the price of the product. There is no case which holds that the mere collecting of a royalty on a process is condemned.

The Third Circuit's decision is in direct conflict with this Court's decision in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc., supra.* The factual situations are very similar. Hazeltine did not manufacture or sell goods. Neither did petitioner. The sole business of both companies was licensing their patents to enable licensees to produce the products which entered trade or commerce. This Court held there was no patent misuse where a licensor of a group of patents required the licensee to pay royalties on a percentage of sales, even though *none* of the patents were used. Petitioner's licenses charge a flat 2¢ for the use of any, some, or all of its patents, but does *not* charge if no patent

is used. Therefore, petitioner's license does not go as far as the *Hazeltine* License.

Petitioner's patents are used to temper glass. (R. 26a, 189a, 244a) The only place at which competition is involved is in the sale of the tempered glass. If one licensee uses only one of petitioner's patents to produce tempered glass, while another licensee uses several, and they both pay the same price for the privilege of using whichever patents they wish to produce the same product, competition is in no way restrained or affected.*

As this Court stated in *Transparent-Wrap* (p. 640):

> "Respondent pays no additional royalty on any improvement patents which are used. By reason of the agreement any improvement patent can be put to immediate use and exploited for the account of the licensee and that benefit continues so long as the agreement is renewed. The agreement thus serves a function of supplying a market for the improvement patents."

2. Conflict with decisions of the Fourth and Seventh Circuits on question of patent misuse.

The Third Circuit's decision conflicts with the Fourth and Seventh Circuit decisions in *Baker-Cammack Hosiery Mills* v. *Davis Co.*, 181 F. 2d 550 (4th Cir., 1950); *Hazeltine Research, Inc.* v. *Avco Manufacturing Co.*, 227 F. 2d 137 (7th Cir. 1955); *Apex Electrical Mfg. Co.* v. *Altorfer Bros. Co.*, 238 F. 2d 867, 872 (7th Cir., 1956); and *Hazeltine Research, Inc.* v. *Admiral Corp.*, 183 F. 2d 953 (7th Cir. 1950).

In *Apex Electrical Mfg. Co.* v. *Altorfer Bros. Co.*, 238 F. 2d 867 (7th Cir. 1956), the court reversed a judgment

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*Shatterproof considered petitioner's patents were "of limited scope which appear not to be essential to the manufacture of satisfactorily tempered glass, and for most of which alternatives are available." (R. 79a)

holding that there was a misuse of patents under the anti-trust laws. It held valid a practice under which applicants could obtain a license under one, two, or three patents for the same royalty. It held that this did not constitute requiring licensees to take unwanted patents.

In *Baker-Cammack Hosiery Mills* v. *Davis Co.*, 181 F. 2nd 550 (4th Cir. 1950), the defendants alleged misuse in an infringement suit on several grounds, including one: "that the licensee is required to take a licensee for all fifteen patents at 2¢ per dozen pairs, and may not obtain a license under a smaller number of patents at a smaller royalty;" (p. 569).

The Court stated (p. 570):

> "* * * nowhere in this case does it appear that free competition has been stifled or that any attempt has been made to control the producers as to prices or quantities or areas of production. Furthermore, the patent privileges have been offered freely to all manufacturers and it is to their obvious advantage to possess the right to incorporate in their output all the modern improvements in the manufacture of hosiery.
>
> * * * *
>
> "The defendants and their associates cannot complain of hardships heretofore imposed upon them. Not only have they paid no royalties for the use of the inventions, but they have defied the owners of the patents and are now contending that even if they are infringers, they cannot be required to pay damages since the plaintiff does not come into court with clean hands. * * *"

The reference by Judge Leahy in footnote 13 of his opinion to the *Apex*, *Avco*, and *Baker-Cammack* cases is difficult to understand, as those three decisions are exactly contrary to Judge Leahy's ruling (R. 172a).

3. Conflict with Decision of District Court of Ohio.

The decision of the court below is concededly in conflict with the decision of Judge Kloeb in the District Court for the Northern District of Ohio, Western Division. The conflict is just as serious as if it were between two circuit courts of appeal, since the District Court's opinion was final, and appealable only to the Supreme Court. 15 U. S. C. Section 29. The Third Circuit acknowledged that on September 16, 1958 "Judge Kloeb delivered an oral opinion in which he concluded that there was no violation of the consent decree by the package licensing plan followed by Securit for the preceding ten years." (38)

The Third Circuit (1) disagreed with the Ohio court's finding that Shatterproof's application for a license was *not* made in good faith (41); and (2) ruled it is "crystal clear" that petitioner violated the Toledo consent decree "despite Judge Kloeb's holding to the contrary." (39, 46)

The disagreement was specifically acknowledged by the Third Circuit, when it said:

> "We are aware, of course, that Judge Kloeb framed the consent decree and his views as to its interpretation are entitled to great weight but we cannot agree with them." (46)

4. The Decision of the Third Circuit Conflicts with the Seventh Circuit's Decision on Summary Judgment.

On July 15, 1955 petitioner filed suit for infringement against Hamilton Glass Company, Inc. in the United States District Court for the Southern District of Indiana. (R. 190a) On July 3, 1957 the Indiana Court granted Hamilton's motion for summary judgment on the same grounds as the Delaware Court. On April 24, 1958, the Court of

Appeals for the Seventh Circuit reversed the Indiana Court order for summary judgment, and remanded the cause for a trial. (254 F. 2d 889)

The record before the Third Circuit was substantially the same as that before the Seventh Circuit, and the issues determined were identical. The Third Circuit's opinion did not discuss petitioner's points in support of its contention that the record was not adequate to support a summary judgment.

The following items illustrate the conflict between the decisions:

1. Judge Leahy and the Third Circuit accepted as a fact "that plaintiff has consistently refused to license individual patents", citing the deposition of Robert Ingouf (R. 170a, 271a). The Seventh Circuit found in Ingouf's deposition evidence of licenses of different numbers of patents. It also concluded from the Shatterproof correspondence that petitioner had offered to license an individual patent (p. 891).

2. Judge Leahy did not make any finding that Shatterproof had made a bona fide application to petitioner for a license, but the Third Circuit did make such a finding—thus disagreeing not only with Judge Kloeb, but with the Seventh Circuit. (41) Speaking of both Shatterproof and Hamilton, the Seventh Circuit said: (pp. 891-892)

> "Moreover, there is no evidence that the seven applicants who received plaintiff's standard license between 1947 and 1949, [sic] were forced to accept it. In fact there is no unequivocal evidence that *anyone, including defendants*, ever applied either to plaintiff or the federal district court at Toledo, Ohio, which entered the consent decree referred to in the summary judgment herein, for licenses and were refused. It seems clear that this failure of proof undermines the district court's holding which is based on a *refusal by plaintiff*." (italics supplied)

3. Judge Leahy concluded that petitioner's contention that giving Shatterproof a lower royalty "would have resulted in discrimination against the existing licensees is without merit." (R. 176a) The Third Circuit considered this refusal to grant a lower royalty as showing there was "no genuine issue of material fact." (41) The Seventh Circuit stated: (p. 892)

> "Speaking of a statement in a letter which plaintiff sent to Shatterproof that plaintiff did not 'concede any obligation to apportion this royalty among the different patents', Judge Kloeb said:
>
> > "The Court can well see how an attempt to so apportion might result in discrimination: * * *'.
>
> These views of the judge who entered the consent decree emphasize the complexity of the issues involved in the case at bar, a complexity the dissipation of which requires a thorough trial before the court where witnesses for one side may be cross-examined by the other side, all subject to the traditional safeguards in the law of evidence, as we shall now point out."

4. The completely opposite conclusions of the two Courts of Appeal are illustrated in the following:

The Third Circuit (46):

> "We conclude *nonetheless* that the present record affords a sufficient basis to decide the ultimate and important issue involved in this case and that it is unnecessary to vacate the judgment of the court below to the end that the record may be enlarged." (italics supplied)

The Seventh Circuit (pp. 892-893):

> "From the pleadings of the parties, as well as their briefs in this court, it appears that important

> questions of substantive law must eventually be decided. However, no court should attempt such a decision until all pertinent facts are ascertained. If the record shows, as we believe it does, that genuine issues of fact exist and that the evidence on those issues is conflicting, of uncertain weight, in part incompetent, and itself susceptible of various interpretations, only by a trial can the court ascertain the pertinent facts and move on to decide such questions of substantive law as those facts present. In such a situation entry of summary judgment is not the proper method."

The Third Circuit held that the "conjoint licensing by mandate of the patentee of two or more apparatus or process, patents in the same art, whatever the nature of their disclosures" (43) is a patent misuse *without examining the patents.* The court noted "that not a single one of the patents * * * is in the record before us." (42) If the law relating to antitrust violations and the law relating to patent misuse are to be based on reality instead of fantasy, there should be a trial at which a court could consider what effect the package license had on anybody—Shatterproof, competitors of Shatterproof, petitioner's other licensees, the general public, or the possible owners of other patents used in the tempering art. As the Seventh Circuit stated, only by a trial can all the facts be developed which are essential to a determination of the important legal questions involved.

5. This Court Should Determine Whether:

(a) Only the court which entered a consent decree has power to judge whether it has been violated, and (b) A construction of a consent decree by the court which entered it must be followed by other courts.

The decision of the court below raises a question of great importance in the administration of the antitrust laws. An antitrust decree is drawn to fit the exigencies of

a particular case. "A public interest served by such civil suits is that they effectively pry open to competition a market that has been closed by defendants' illegal restraints." *International Salt Co.* v. *U. S.*, 332 U. S. 392, 401 (1947) District Courts retain jurisdiction over the defendants for the purpose of enforcing such decrees.

Where a decree is entered after a trial, the trial court is the only court which has knowledge of the market conditions the decree was designed to correct. Whether conduct of a defendant violates a decree is a question which can best be determined by the court which entered it.*

The decision of the court below is in conflict with the decision of this Court in *United States Gypsum Co.* v. *U. S.*, 352 U. S. 457 (1957). The situation there was similar to the instant case. A patent owner, defendant in an antitrust decree, brought suits for infringement in the Iowa and New Jersey District Courts. The alleged infringers *and* the Government petitioned the antitrust court in the District of Columbia to enjoin the infringement suits on the ground the patent owner was misusing the patents. This Court stated that the issues of misuse and purge

> "should be tried and disposed of by the antitrust court rather than the Iowa court, both for reasons already given, supra, pp. 464, 465, and because of the antitrust court's familiarity with what has occurred in these protracted litigations. However, should the antitrust court conclude that Gypsum is not barred from recovery on Counts III, IV, or V by reason of unpurged patent misuse, we think that the trial and disposition of all other issues, including any

*Although this was a consent decree, there had in fact been a two-month trial before Judge Kloeb. After the Government's case case was concluded, a recess was taken, during which the consent decree was negotiated. Thus, Judge Kloeb had personal knowledge of the matters covered by the decree. (R. 109a, CCH Federal Antitrust Laws 1890-1951 "Blue Book" Case No. 822, page 324).

> defense of patent validity, should then take place in the District Courts in which the two suits are pending. There is no reason why the three-judge court should be burdened with such issues." (p. 476)

This case demonstrates the necessity for this Court to determine whether the efficient administration of the antitrust laws is better served by holding that the antitrust court has sole power to construe its own decrees. In *Gypsum* this Court foresaw the possibility of conflicts where different district courts other than the antitrust court attempted to construe an antitrust decree. The conflict here is even more serious. The Delaware Court has held that petitioner is guilty of violating the Toledo consent decree. If this is so, petitioner is in contempt of the Ohio Court. Yet the Ohio Court, after considering the identical issues, has specifically ruled that petitioner is *not* guilty of violating the decree.

The decision of the Ohio Court is binding upon petitioner throughout the jurisdictional limits of the United States. The decision of the Third Circuit is binding only within the three states of Delaware, Pennsylvania and New Jersey. Beyond the boundaries of the Third Circuit, that Court's decision is only a precedent. As of today, petitioner is free to bring suits for infringement everywhere except within the Third Circuit. Do other District Courts have the authority to find petitioner guilty, contrary to the holding of the Ohio Court? May petitioner maintain infringement suits only within the Northern District of Ohio, or in all states other than the Third Circuit?

If petitioner violated the Toledo decree, it is in contempt of the Ohio Court, which is the only court that may punish it, or enter such order as is necessary to correct any injury which has been done to its decree. Other courts may determine whether petitioner has violated the antitrust laws aside from the decree, but not whether petitioner has violated the Toledo decree. The obligation of petitioner to

grant anybody a license arises *only* under this consent decree. But for the consent decree petitioner had the right to refuse to license any of its patents to Shatterproof. *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 424 (1945). For these reasons, the decree cannot be enforced by other courts than that of Ohio.

An important reason for requiring such determination to be made by the antitrust court is that its decision determining whether the practices complained of violate the decree is a construction binding upon *all* the parties to the decree. The Government urged this before the Ohio Court in October 1955 as a ground for enjoining petitioner from suing Shatterproof in Delaware. (R. 191a-193a) Furthermore, the Attorney General may appear before the antitrust court as of right, and protect the interest of the public. He can bring before the court evidence which may be beyond the jurisdiction of the infringement suit court.

It is not in furtherance of the purposes of the antitrust law that one company which uses petitioner's patents be given by one court a free license to the disadvantage of its competitors who are obligated by another court to pay royalties.

By dismissing the suit the Delaware Court in effect enjoined petitioner from suing a confessed infringer, one ground being the alleged violation of the consent decree. Was this proper, after the court had suspended proceedings while the United States petitioned the Ohio Court, and the Ohio Court had then refused to enjoin the suit?

The opinion of Judge Kloeb rendered on October 19, 1955 shows clearly that his declining jurisdiction did *not* mean he preferred to permit the Delaware Court to determine the issue of misuse due to violation of the decree, but that since Shatterproof came before him with "unclean hands," he would *not* undertake to determine a reasonable royalty, and would *not* enjoin petitioner from suing for in-

fringement. (R. 102a, 105a, 107a) Judge Kloeb confirmed this interpretation at the hearing on September 16, 1958. (R. 238a, 239a, 240a, 241a, 244a, 246a) He pointed out that the question of construction of the decree was not before him in 1955. Judge Kloeb said to Government counsel (R. 247a):

> "* * * when Judge Leahy had the question presented to him by Shatterproof in its Answer alleging that Securit was violating the Consent Decree, couldn't he at that point have said, 'We will permit that matter to go back to the mother court, and in the meantime we will stop this proceeding and both Shatterproof and Securit may go before the Court in Toledo on the question of construction of the Consent Decree.'"

The best answer to the problem was stated by Judge Kloeb as follows: (R. 248a)

> "In the meantime, you have confusion. I have seen these suits multiply. Now they are two in number. If this Court took no action you would have a third, a fourth, a tenth, in the course of the next two or three years. Don't you think that ought to be foreclosed in a way by some expression upon the part of this Court as to whether or not the package deal, as practiced by Securit in this instance, is in violation of the Decree?"

Judge Kloeb interpreted Shatterproof's attitude as "the classical position taken by infringers: 'We doubt very much the validity of your patents and we expect to attack their validity.'" (R. 108a) Judge Kloeb noted with considerable disapproval that Shatterproof conceded it began using petitioner's patents in 1953, but had made no application to Judge Kloeb to fix a reasonable royalty. (R. 115a-116a) He was annoyed that Shatterproof presumed it had a "free license," and could sit by and wait to be sued. Judge Kloeb said "Why didn't you apply to the Court

instead of proceeding to make use of the patents? That is the thing I can't understand." (R. 119a) "Why didn't you appeal to the Court instead of taking the law into your own hands?" (R. 120a)

The interpretation of Judge Leahy is completely contrary to Judge Kloeb's statements that since Shatterproof had stalled for 5 years, used petitioner's patents, and had not applied to Judge Kloeb until *after* suit was commenced in Delaware, Shatterproof could not obtain benefits under the decree, but would have to defend in Delaware on the grounds of either invalidity or no infringement. (R. 85a, 107a, 133a, 143a, 148a) Judge Kloeb refused the Government's request to enjoin petitioner from suing Shatterproof for infringement. In spite of this, Judge Leahy did enjoin petitioner, and the Third Circuit affirmed.

6. This Court Should Determine Whether it is Per Se a Patent Misuse for the Owner of a Group of Patents to charge the Same Royalty for use of some as for all of its patents.

While the Third Circuit's ruling is predicated upon the *conclusion* that petitioner *compelled* licensees to accept a license under *all* its patents or *none* at all, both it and the Delaware Court conceded that *in fact* petitioner had offered to grant a license on the specific patents requested. Both courts concluded that since petitioner conceded it asked a 2¢ royalty for the four patents desired by Shatterproof, while charging 2¢ for the use of all its patents, that petitioner was *in effect* compelling Shatterproof to take a license under all the patents. (41)

The *essence* of the decision below, then, is not that petitioner required licensees to accept a license under unwanted patents, but that it was unlawful for petitioner to charge the same royalty for 4 patents as for a larger group which included the four patents.

It can not be a patent misuse to charge the same royalty for a single patent as for a group containing the single patent, unless it is not lawful for a patent owner to charge the same royalty for one patent as for all its patents *under any circumstances*. The decision appears to conflict with the principle in *United States* v. *General Electric Co.*, 272 U. S. 476, 490 (1926), where this Court stated the test for determining the extent of the reward to which a patentee is entitled.

7. This Court Should Determine Whether Package Licensing of Patents is a Violation of the Standard Provisions Used by the United States in many Antitrust Decrees.

The decision of the court below is of great importance, not simply because it conflicts with the decision of the Ohio court, but because the provisions of the antitrust decree involved are common to many antitrust decrees. The ruling may not only deprive patent owners throughout the country of the right to royalties, but sets a precedent for finding them guilty of contempt of court.

The Delaware court quoted Paragraphs XIV-B and XVII (1)(a) of the Toledo Decree in a footnote. (R. 175a, 7b-9b, the full decree is found in CCH 1948-1949 Trade Cases ¶ 62,323) The Delaware and Third Circuits both held that petitioner's standard form license violated those sections of the decree, and that petitioner's refusal to grant Shatterproof a lower royalty violated the decree. (R. 175a, 46) The license provides for a royalty *only* when a patent is *used*. When the patent *used* by a licensee expires, there is nothing in the license requiring it to pay any royalty. (R. 57a) The consent decree permits a licensee to contest the validity of any of the patents, and the license does not require payment of royalties on invalid patents. (R. 59a, 9b, paragraph XIV-E, 1948-1949 CCH Trade Cases ¶ 62,323).

Petitioner contends that since the Toledo decree gave the Ohio Court complete authority *with petitioner's consent*

to require petitioner to grant whatever license the Ohio Court considered necessary to avoid even the effect of an antitrust law violation, and the right of Shatterproof or any other person to convince the Court of what was so necessary, it is impossible for petitioner to violate those sections of the decree. Therefore, there cannot be a misuse based upon the decree.

The Ohio Court so ruled during the hearing on defendant's application on October 19, 1955, (R. 101a), and in 1958 made the specific finding (R. 259a):

> "6. Petitioner is unable to prevent the issuance of a license on patents subject to Section XIV, as any bona fide applicant has a right to apply to this Court to determine a reasonable royalty rate, and after such application has been made, such applicant has the right to use the patents, subject to paying whatever royalty is fixed by this Court."

In the special circumstances of this case, petitioner did *not* have the power to violate the consent decree. Even if its licensing practices *might* be illegal under some *other* circumstances, they cannot be here. The consent decree deprived petitioner of the power to compel any one to submit to its practices. (R. 122a) All patents licensed by petitioner were completely subject to the control and supervision of the District Court for the Northern District of Ohio. (R. 259a)

Fundamental to this case is the fact that petitioner could not refuse a license to anybody. There is this vital distinction between petitioner and a patent owner who is not operating under an antitrust decree.

CONCLUSION

The decision below is erroneous and in conflict with rulings in the Fourth and Seventh Circuits and the Ohio court. It is contrary to principles announced in decisions of this court. It presents several questions of substantial

importance on the rights of patent owners, the doctrine of patent misuse, violation of the standard provisions of many antitrust decrees, and the power of one district court to construe and find a violation of an antitrust decree of another court.

The decision of the court below was severely punitive. It closed the door of that court to petitioner, denied it a hearing against an infringer, and insisted petitioner cancel all its licenses and lose all its income. If Shatterproof or any other person desiring to use petitioner's patents had applied to the Ohio Court, the most that the Ohio Court could or would have done was to set a royalty rate lower than 2¢. It could not and would not have destroyed the property right of petitioner in its patents as Judge Leahy did. Even if it be held that Judge Leahy had the authority to construe or interpret the Toledo decree, he could not justly render a judgment or impose a penalty greather than that authorized for the Ohio Court.

The holding below has created new law of far-reaching consequence to all owners of patents, and raises serious problems in the administration and enforcement of antitrust decrees. The petition for a writ of certiorari should be granted.

Respectfully submitted,

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UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 12,706
No. 12,739

THE AMERICAN SECURIT COMPANY,
Appellant,

v.

SHATTERPROOF GLASS CORPORATION.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE

Argued February 17, 1959

Before BIGGS, *Chief Judge*, and MCLAUGHLIN and KALODNER, *Circuit Judges.*

OPINION OF THE COURT

(Filed July 14, 1959)

By BIGGS, *Chief Judge.*

The background of the appeals at bar is complicated.[1] We begin with facts relating to the so-called "Toledo decree" as follows. The United States charged The American Securit Company, the plaintiff in the case at bar, and certain other corporate defendants, with violations of the antitrust laws of the United States in connection with certain patents for the tempering of glass owned or controlled by them. This resulted, on October 30, 1948, in a final judgment by consent decree entered by Judge Kloeb in the

1 A factual history is set out in the opinion of Judge Steel of the court below. 166 F. Supp. 813, 818-822. See also the opinion of Chief Judge Leahy, 154 F. Supp. 890 (1957).

United States District Court for the Northern District of Ohio, Western Division at Toledo, against Securit and other defendants named in that suit, Civil Action No. 5239, the Ohio suit.

The consent decree provided that if a request for license was made to one of the patentees, defendants in the Ohio suit, including Securit, for use of "any, some, or all" of the patents covered by that litigation and an agreement as to the royalty to be paid by the applicant could not be reached between the patentee and the applicant for a license within sixty days of the request, the applicant could apply to the Ohio District Court to fix a reasonable royalty. In the meantime, pending the fixing of a royalty rate, the applicant should be entitled to make use of the patent or patents without being charged with infringement and without payment of royalties. The decree stated also that the burden of proof should rest on the owner of the patent to establish the reasonableness of the royalty demanded. The decree provided as well that either the applicant or the owner of the patent could apply to the Ohio court to fix an interim royalty rate, the decree stating further that: "Where an interim license or sublicense has been issued pursuant to this Subsection, reasonable royalty rates, if any, as finally determined by the Court shall be retroactive for the applicant and all other licensees under the same patents to the date the applicant filed his application with the Court." The Ohio court also retained jurisdiction for the purposes of making such further orders or directions as might be necessary to construe or carry out the purposes of the decree. Any party to the judgment, including, of course, Securit, could apply for a construction of the Toledo consent decree. Section XIV(B) of the consent decree provided in substance that each of the corporate defendants was restrained from including any restriction or condition in any license or sublicense granted by it subject to certain exceptions not pertinent here.

On March 20, 1951, negotiations were opened by Shatterproof Glass Corporation with an inquiry to Securit re-

specting the possibilities of obtaining a license under certain patents owned by Securit. Correspondence continued between the two corporations until February 1955. It appears from the correspondence between the two companies that Securit did not desire to license Shatterproof under any of the patents unless it licensed Shatterproof under all of them, as set out and described in "Schedule A" attached to Securit's Standard Licensing Agreement referred to more specifically hereafter. Securit offered to Shatterproof the Standard Licensing Agreement which Securit had employed with several other licensees. The royalty for the entire package of patents was to be two cents (2¢) per square foot of glass manufactured and sold by the licensee regardless of the number of patents actually used. Correspondence between Shatterproof and Securit ceased temporarily on July 12, 1951. About September 1952, it appears that Shatterproof installed equipment for the manufacture of tempered flat glass. On March 4, 1953, Shatterproof renewed the correspondence and in its letter to Securit requested licenses under the Toledo decree and asked for royalty under four different combinations of patents. Securit's reply of March 19, 1953, indicated that that company would issue licenses restricted to patents specified by Shatterproof but that the royalty would be the same, 2¢ per square foot, whether one or more patents would be used by the licensee.

It appears that Shatterproof commenced commercial production of glass in June 1953, and has not paid any royalty for the use of the patents to date.

The suit at bar was commenced on March 7, 1955, and contained six counts. Counts I to IV, inclusive, *mutatis mutandis*, alleged that Shatterproof constructed apparatus infringing four individual patents [2] and thereby deprived Securit of profits. Counts V and VI of Securit's complaint

2 The patents were: United States Patent No. 2,131,406, Mosmieri; United States Patent No. 2,167,294, Despret; United States Patent No. 2,093,040, Eckert, expired September 14, 1954; and United States Patent No. 2,303,749, Long.

in the court below were designed to state causes of action based on unfair competition growing out of the alleged infringements and asserted that the negotiations initiated and carried on by Shatterproof with Securit were spurious, not looking toward securing licenses but were instituted in order to make use of the patents without paying royalties to Securit. Securit sought an accounting, damages and an injunction. Shatterproof filed an answer to this complaint, denying the validity of the patents or their infringement, and by way of affirmative defenses, asserted that Securit was insisting on package licensing and thereby (1) was itself indulging in misuse of patents, and (2) was in violation of the Toledo decree. Shatterproof also counterclaimed for a declaratory judgment to have the patents adjudged invalid and not infringed.

Several affidavits were executed on behalf of the respective parties. Expensive depositions were taken. The Toledo consent decree was introduced; as were portions of the proceeding in the Ohio court. Some of these documents are referred to more particularly hereinafter.

On June 13, 1955, Securit filed motions in the instant case to dismiss the defenses of patent misuse and violation of the Toledo decree. These motions were denied on May 25, 1956, in an opinion letter by Judge Leahy. Appropriate orders were entered.[3]

On July 25, 1955, Shatterproof filed an application in the Ohio court seeking, *inter alia*, a determination of a reasonable royalty for the patents sued on in the court below and for an order requiring Securit to comply with the Toledo decree. On September 14, 1955, Securit filed a

3 Addressing himself to the second defense, Judge Leahy stated: "This defense refers to the Toledo decree and asserts its [Shatterproof's] right to a royalty-free license. Under this defense defendant shows that it has attempted to negotiate for several years with plaintiff in order to fix some reasonable royalty base for a license from plaintiff to defendant. Under the original Toledo decree any party may operate under plaintiff's patents during the period of negotiations for a license and before the license is actually granted. Here, on the record before me, it would appear defendant has made a bona fide effort to obtain a license." These orders are also appealed from as appears at a later point in this opinion.

motion in the case at bar to enjoin Shatterproof from prosecuting its application to the Ohio court referred to in the preceding sentence. On October 6, 1955, the United States filed in the Ohio court a petition for an order to construe and enforce the consent decree, alleging that Securit's action in bringing the suit at bar against Shatterproof was instituted as an attempt to defeat the Toledo decree and was barred by it and prayed that Securit be permanently enjoined from taking action in any court to prevent any applicant for a license from exercising any rights conferred by the Toledo decree. On October 7, 1955, the United States intervened in the suit at bar and filed a "Representation" in which it asked the court to refrain from taking any further action pending a decision by the Ohio court on the petition of the United States filed therein which we have referred to in this paragraph. On October 10, 1955, the court below entered an order denying Securit's motion to restrain Shatterproof from prosecuting its application in the Ohio court and staying the case at bar until after the determination by the Ohio court of the petition of the United States filed therein. On October 19, 1955, Judge Kloeb, of the Ohio court, delivered an oral opinion in which he stated his reasons for declining jurisdiction.[4] On December 13, 1955, Judge Kloeb dismissed the petition of the United States and the application of Shatterproof seeking respectively an injunction against Securit from taking any action in any court preventing an applicant for license from exercising any rights conferred by the Toledo decree and a determination of reasonable royalties. On January 20, 1956, Securit filed a motion in the court below entitled a "Motion to Proceed", based upon Judge Kloeb's actions in the Ohio suit.

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4 Judge Kloeb stated in part: "It [the action by Shatterproof in applying to the Ohio Court to fix a reasonable royalty rate] is somewhat like a little fellow who annoys his neighbor's boy, taunts and berates him, and finally puts a stick on his shoulder. When the other fellow knocks it off he runs to mamma and hides under her skirts.

"I don't believe I want to accept jurisdiction under these circumstances. It seems to me the Court is being used as an alternative recourse, as a last resort."

On December 26, 1956, Shatterproof filed a motion in the court below for summary judgment to dismiss the patent infringement counts, Counts I through IV, urging misuse and violation of the Toledo decree as grounds for the dismissal. Securit opposed the motion for summary judgment. On February 20, 1957, the defendant Shatterproof moved for dismissal of Counts V and VI on the ground that they failed to state a claim upon which relief could have been granted. On July 19, 1957, Judge Leahy filed an opinion on the motion of December 26, 1956, concluding that Securit's policy of refusing to grant a license under one or more of its patents, unless a license was taken under all in the package for a fixed royalty, constituted (1) unlawful coercion and an illegal extension of patent monopoly and (2) a violation of the Toledo decree, and that for these reasons Securit was barred from enforcing its patent rights in the instant case.[5] Judge Leahy stated that he would grant summary judgment under Rule 56, Fed. R. Civ. Proc., 28 U.S.C., on Counts I through IV of the complaint. Judge Leahy, however, entered no order or decree.[6]

On July 9, 1958, Securit filed a petition to the Ohio court and referred to Judge Leahy's opinion which stated, as we have said, that the court below would grant Shatterproof's motion for summary judgment, and also to a suit brought by Securit against Hamilton Glass Company, Inc. in the United States District Court for the Southern District of Indiana (TH55-C-37) in which Securit alleged that Hamilton had infringed certain patents covered by the Toledo decree. In this suit Hamilton had filed a counter-

5 Judge Leahy considered Securit's offer to license its patents individually, but stated that the result of such an offer was also an unlawful coercion on the licensee. He did not, however, consider the nature of the patents involved, *e.g.*, whether they were patents for alternate methods of manufacture of tempered flat glass or the impact of package licensing when all patents relate to manufacture of a single product, if such were the case.

6 Judge Leahy stated: "For the foregoing reasons, defendant's motion for summary judgment as to Counts I through IV of the Complaint is granted. An appropriate order may be submitted but only after there is a determination by trial, or otherwise, of the remaining counts in plaintiff's complaint." 154 F. Supp. 890, 898.

claim and had alleged unfair competition, monopolization and restraint of trade by Securit. The Indiana district court found that Securit was barred from maintaining its suits against Hamilton because Securit had misused its patents and had violated the Toledo decree. The Court of Appeals for the Seventh Circuit reversed but took the position, however, that the Indiana District Court had the authority to construe the consent decree for the purpose of adjudicating a charge of misuse of patents based on alleged violation of the consent decree. In its petition of July 9, 1958, Securit alleged that both the Delaware and the Indiana courts misinterpreted the consent decree by holding that Securit's refusal to grant licenses except by way of the package was a violation of the Toledo decree.[7,8] On August 19, 1958, Judge Kloeb, pursuant to Securit's petition issued an order to show cause to the Attorney General of the United States, Shatterproof, and the Hamilton Glass Company why Securit's petition should not be granted, and set the matter down for hearing on September 16, 1958.

On September 3, 1958, Shatterproof filed a motion in the court below to enjoin Securit from prosecuting further its petition in the Ohio court until termination of the action in the court below and the disposition of any appeal. On September 15, 1958, the court below, by Judge Steel, concluded that its power to grant injunctive relief was not negatived by United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457 (1957), though conceding that the Ohio court, having rendered the consent decree, was peculiarly competent to construe it. The court below was of the opinion that because Securit had selected the Delaware forum it should be restricted to it, and enjoined Securit from tak-

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7 The precise allegation was as follows: "The Delaware and Indiana Courts have misinterpreted this Court's decree and have ruled that Petitioner violated the decree by (1) licensing all its patents in a single package, and (2) refusing to license less than all the patents for less than the royalty charged for the package."

8 The decision of the Indiana court was reversed by the Court of Appeals for the Seventh Circuit, 254 F.2d 889 (1958), primarily on the ground that the case was not ripe for summary judgment.

ing any action under its petition of July 8, 1958, to the Ohio court. Nonetheless a hearing was held before Judge Kloeb on September 16, 1958. Shatterproof came into court and offered the injunction issued by Judge Steel the preceding day for the information of Judge Kloeb but took no further part in the proceedings. Judge Kloeb delivered an oral opinion [9] in which he concluded that there was no violation of the consent decree by the package licensing plan followed by Securit for the preceding ten years.

On September 22, 1958, Judge Steel, finding that there was no just reason for delay, and acting on Judge Leahy's opinion [10] of July 19, 1957, filed on the motion for summary judgment, entered an order dismissing Securit's Counts I through IV, under Rule 54(b), Fed. R. Civ. Proc. Judge Steel, employing the procedure required by Rule 54(b), also dismissed Counts V and VI, the unfair competition counts, basing this dismissal on the point that the adjudication that Securit could not enforce its patents against Shatterproof was conclusive as to claims of unfair competition. Judge Steel also denied a motion by Securit to amend the complaint, the amendment being designed primarily to buttress the unfair competition counts. A motion by Securit to dismiss the counterclaim filed by Shatterproof is still pending, as are applications for counsel fees. The court below suggested that since, in its view, the misuse issue was settled by the judgment dismissing Counts I to IV inclusive that judgment made the invalidity and non-infringement issues of Shatterproof's counterclaim "probably moot". [11]

The appeal at our No. 12,706 is taken from the order of September 15, 1958, granting an injunction against

9 119 U.S.P.Q. 86 (1958).

10 See again 154 F. Supp. 890.

11 The order and the judgments first referred to are appealable. The three considerations which would lead to a different conclusion, set out in Panichella v. Pennsylvania Railroad Co., 252 F.2d 452 (3 Cir. 1958) are absent in the case at bar. The interim orders are appealable also since they are incidental to the judgment and the order first referred to.

Securit. The appeal at our No. 12,739 is taken from the final judgment dismissing Counts I through IV and Counts V and VI, and from the following interim orders: (1) order of Judge Leahy of May 12, 1955, allowing Shatterproof to file an answer out of time, (2) order of Judge Leahy denying Securit's motion to dismiss Shatterproof's defense of misuse, (3) order of Judge Leahy denying Securit's motion to dismiss Shatterproof's second defense, non-compliance with the Toledo decree, and (4) order of Judge Steel denying Securit's motion to file an amended complaint.

On September 29, 1958, the Ohio court by Judge Kloeb, following his oral opinion of September 16, 1958, made findings of fact and conclusions of law, construed the consent decree of October 30, 1948, and held that a grant by Securit of a license to use all of the patents in its package under a flat or single royalty for all patents licensed would not violate the consent decree whether such licensing was or was not called a "package"; that Securit did not violate the consent decree by advising "an applicant" that it would not license an individual patent for less than the royalty charged for all of its patents; that Sections XIV and XVII of the consent decree do not require Securit to set a royalty on each individual patent subject to the consent decree and that Securit could set a flat royalty on "any, some, or all of its patents", that any dissatisfied applicant for a patent might apply to the Ohio court for relief; that Securit's practice of granting to any applicant a license to use any, some, or all of its patents for a flat royalty of 2 cents per square foot of glass tempered was reasonable and non-discriminatory; that Section XIV(C) and Section XIV(D) did not provide an applicant with a free license to use patents subject to the consent decree but did provide that if a bona fide written application for a license were made to the patent owner, the applicant could commence using the patents, and any royalty agreed to by the applicant and patent owner or fixed by the court should be retroactive to the date the applicant commenced to use the patents; and that

the objective of the consent decree was to prevent practices which violated the antitrust laws. The Ohio court also ruled that none of Securit's licensing practices, as described in the petition, and that none of the provisions of Securit's standard licensing contract violated the consent decree. The Ohio court held also that despite the voluminous exchange of correspondence between Securit and Shatterproof in which Shatterproof ostensibly was applying for licenses, Shatterproof had not made a bona fide application for a license; *i.e.*, that Shatterproof's application was "not made in good faith."

The foregoing describes sufficiently the litigation in the court below and the proceedings in the Ohio court.

I

The substantial issue presented by the appeals at bar is whether package licensing, compulsory, as distinguished from voluntary, insofar as the applicant for a license is concerned, is a violation of the consent decree entered by the United States District Court for the Northern District of Ohio, Western Division, on October 30, 1948 (United States v. Libbey-Owens-Ford Glass Company, *et al.*, Civil Action No. 5239), or constituted a misuse of patents of such a character as to prohibit American Securit Company from maintaining a suit in the court below for the alleged infringement of four patents owned by it and included among some thirty-five patents owned by Securit covered by the consent decree entered by the Ohio court. The court below resolved this major issue in favor of Shatterproof and against Securit on motion for summary judgment. Rule 56, Fed. R. Civ. Proc., 28 U.S.C.

Prior to deciding the issue referred to, other preliminary questions require discussion and disposition. Is there present a genuine issue of material fact as to whether it was the policy of Securit to license only by way of package licensing? Rule 56(e). We conclude, as did the court be-

low, that there was not. There is no doubt but that Securit has maintained the policy of requiring its licensees to accept package licensing. Ingouf, Vice-President and Treasurer of Securit, testifying by deposition on July 26, 1956, was asked on direct examination as to whether Securit would grant licenses for individual patents, and replied: "We do not grant a license on that basis."[12] The record shows that no licenses were granted to any company by Securit except under its Standard Licensing Agreement providing for package licensing. The correspondence between Securit and Shatterproof demonstrates the refusal of Securit to set royalties on specified groups of patents covered by the Toledo consent decree.[13] We are of the opinion, particularly in view of Securit's stated policy referred to in the preceding paragraph, that no genuine issue of material fact lurks in this phase of the case. Cf. International Salt Co. v. United States, 332 U.S. 392 (1947), at pp. 396, 398. We are also of the view, as apparently was the court below, though it did not expressly determine this question, that Shatterproof, insofar as it could, amounts of royalty for specified groups of patents not being obtainable by it from Securit, made a *bona fide* application to Securit for licensing under the Toledo decree.[14, 15] Indeed, if we correctly apprehend the

12 See Deposition of Mr. Robert Ingouf, Docket Item No. 102, pp. 121, 163-165. See also *id.* at pp. 309-310.

13 See "Stipulation Re Certain Letters" and Securit's Standard Licensing Agreement, Docket Item No. 52. We conclude, as did the court below, that Securit's offer to license any patent at the rate of 2¢ per square foot of glass manufactured thereunder was a mere "catalyst" to compel Shatterproof to accept the package. 154 F. Supp. at p. 895.

14 See Shatterproof's letter of March 4, 1953, and Securit's reply of March 19, 1953. See also the subsequent correspondence contained in the Stipulation referred to in note 13, *supra*.

15 In so stating we are not unaware of the conclusion of the Ohio court to the contrary. See the oral opinion of Judge Kloeb, Finding of Fact No. 10, 119 U.S.P.Q. 80, 90. Judge Kloeb's opinion is, of course, entitled to great weight but we cannot concur in his view.

It may be noted parenthetically that the finding referred to presents no element of *res judicata* insofar as Shatterproof is concerned, for the following reasons: (1) When Shatterproof first appeared in the Ohio court Judge Kloeb declined jurisdiction, note 4, *supra*. (2) When Shatterproof offered the Delaware injunction to the Ohio court it did not "appear" therein as Judge

law, whether Shatterproof made a *bona fide* application to Securit for licensing is material only by way of corroboration of Securit's settled policy, as found by the court below, of licensing only by way of package. Cf. Morton Salt Company v. Suppiger Co., 314 U.S. 488, 494 (1942). Furthermore, if Shatterproof's hands be unclean in that it made no *bona fide* application to Securit for licensing, that uncleanliness will not render Securit's hands clean if it is unlawfully extending a patent monopoly.

We come, therefore, finally, to the naked question: Whether Securit's mandatory package licensing *per se* constitutes a misuse of patents and a violation of the Toledo consent decree? We point out that not a single one of the patents covered by the consent decree, which includes the four patents sued on by Securit in the instant case, is in the record before us. An examination of "Schedule B.5.", attached to and made a part of the consent decree, demonstrates that at least thirty-one of the patents and one patent application owned by Securit and included in "Schedule A", attached to and made a part of Securit's Standard Licensing Agreement are included in the consent decree. From the descriptive titles of Securit's patents contained in the consent decree and Securit's Standard Licensing Agreement, it appears affirmatively that at least some of these patents are apparatus or process patents in the flat glass-making art. An examination of the consent decree and such portion of the record of the proceedings in the Ohio court as are before us, limited though they may be, nonetheless show that Securit's patents covered by the consent decree and included in the group of patents sought to be licensed by Securit to Shatterproof as a package, covered at least a portion of the flat glass-making art. We cannot tell on the present record whether the patents which Securit offered to

Kloeb stated, 119 U.S.P.Q. 86, 89-90, or subject itself to that court's jurisdiction; and (3) Judge Kloeb's order of September 29, 1958, construing the consent decree, was later in time than that of Judge Steel, as stated at a later point in this opinion.

Shatterproof as a package are dominant in that art but we are not presently concerned with the issue of whether those patents offered by Securit to Shatterproof licensed as a package, would sustain a charge of violation of the antitrust laws.

To put our problem in another form: Can it be said that the conjoint licensing by mandate of the patentee of two or more apparatus or process patents in the same art, whatever the nature of their disclosures, whether for basic inventions or mere minor improvements, will sustain a charge of a patent misuse? The following circumstances are present. It must be conceded that there are patents involved covered by the Toledo decree: that these patents are in the flat glass-making art and the patents are not in the record and that their nature is disclosed only by way of brief descriptive titles.

The control of a patent monopoly carries with it the power to fix royalties for the reward of the patentee, and the patentee may even refuse to license.[16] The power conferred by the patent monopoly may be great enough, assuming that the patented process or product is a desirable one, to compel the licensee to submit to other conditions. See the conditions referred to in the cases cited and discussed below. The patent monopoly can be used, as Securit has employed it, to compel licensees to accept licenses under other patents in the same art. Indeed, what conditions can be imposed by the patentees in the exercise of patent monopoly are limited, legal barriers aside, only by the ingenuity employed by the patentees in their attempts to obtain the maximum return for the use of their patented properties.

In Transwrap Corp. v. Stokes Co., 329 U.S. 637 (1947), the Supreme Court held lawful a requirement by the licensor that the licensee assign to the licensor improvement patents applicable to the patented and licensed

[16] We are now putting to one side the terms of the Toledo decree requiring Securit to grant licenses to applicants without discrimination. This issue is disposed of at a later point in the opinion.

machine. This was the use of "one legalized monopoly to acquire another legalized monopoly." *Id.* at p. 644. But use of a patent to restrain trade in unpatented articles was prohibited in International Salt Co. v. United States, *supra*. Even where control of the unpatented article may fall short of a prohibited restraint of trade, a court will not lend its aid to enforce the tying-in of an unpatented article to the patented article. Morton Salt Co. v. Suppiger Co., *supra;* Transwrap Corp. v. Stokes Co., *supra*, at p. 645. In determining whether the patents were lawfully used, the Supreme Court in the two cases last cited looked to the nature of patent monopolies. It is by the same inquiry that the boundary line of the lawful use of patents is discernible in the circumstances of the case at bar.

Each patent gives its owner a monopoly in respect to its disclosures, so much and no more. It is a grant of the exclusive right to manufacture, use and sell the invention which is disclosed. That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process, which also happens to be patented. See Motion Picture Co. v. Universal Film Co., 243 U.S. 502, 501-513 (1917). Each monopoly must stand on its own footing. Cf. United States v. Paramount Pictures, 334 U.S. 131, 158 (1948).[17] Mandatory package licensing is no more than the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent but that is too much. The protection, or monopoly, which is given to the first patent stops where the monopoly of the second begins.

Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result. We con-

17 Compare Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 459 (1940), where the Supreme Court stated that the patent monopoly of one invention may not be enlarged for the exploitation of another.

clude that the court below committed no error in finding that the defense of misuse asserted by Shatterproof is a valid one.

We deem it unnecessary to discuss at length the application of the doctrine of licensee estoppel. It is sufficient to say here that this factor alone in our opinion is enough to render mandatory package licensing a patent misuse. See Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 836 (1950).

We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement [18] which provides that that agreement shall continue "in full force and effect to the expiration of the last to expire of any" of Securit's patents set out in "Schedule A" constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit. Indeed the expiration clause of the contract works an "aggravating hardship" on the licensee as Judge Leahy stated, in that it demands the renunciation of all patents, whether wanted or unwanted under the license.

We conclude for those reasons also that under the circumstances at bar the court below committed no error in ruling that Securit had misused its patents and that this misuse constituted a valid defense to the infringement suit.

In so ruling we are not unaware of the principle enunciated in Kennedy v. Silas Mason Co., 334 U.S. 249, 257 (1948), as follows: "We consider it the part of good judicial administration to withhold decision of the ultimate questions involved in this case until this or another record shall present a more solid basis of findings based on litigation or on a comprehensive statement of agreed facts.

18 Which provides: "Unless sooner terminated under the provisions of Articles 6 or 7 hereof, this agreement shall continue in full force and effect to the expiration of the last to expire of any of the Licensor's U.S. Letters Patent listed in Schedule A attached hereto."

While we might be able, on the present record, to reach a conclusion that would decide the case, it might well be found later to be lacking in the thoroughness that should precede judgment of this importance and which it is the purpose of the judicial process to provide." We conclude nonetheless that the present record affords a sufficient basis to decide the ultimate and important issue involved in this case and that it is unnecessary to vacate the judgment of the court below to the end that the record may be enlarged. The techniques applicable under Rule 56 have been applied properly and are sufficient to afford a firm basis for our decision. Cf. Morton Salt Co. v. Suppiger Co.; International Salt Co. v. United States, and Automatic Radio Co. v. Hazeltine, *supra*, all decided under Rule 56.

II

We agree also with the ruling of the court below that Securit violated the Toledo consent decree. That it did so seems crystal clear despite Judge Kloeb's holding to the contrary as demonstrated by his oral opinion construing the consent decree, cited in note 9, *supra*. Paragraph XIV B. of the decree expressly provides, subject to other provisions not pertinent here, that Securit and the other corporate defendants in the Ohio court were enjoined and restrained "from including any restriction or condition whatsoever in any license or sublicense granted it . . . ." Paragraph XVII (1) (a) of the decree enjoined Securit from granting any license which provided as a condition that the applicant should accept a license under another patent owned or controlled by Securit. Securit's actions in the case at bar demonstrates a violation of these conditions. We are aware, of course, that Judge Kloeb framed the consent decree and his views as to its interpretation are entitled to great weight but we cannot agree with them.

We conclude also that the court below had the jurisdiction, the power, to construe and interpret the consent

decree. As we have indicated, note 15, *supra*, Shatterproof was not a party to the proceedings in the Ohio court when the consent decree was entered, nor has it become such to this day. The court below had jurisdiction of the parties and of the subject matter and was entitled to adjudicate the issues presented. Moreover, as we have shown, the adjudication by the court below, by Judge Steel, preceded by several days the order of Judge Kloeb, construing the consent decree. Judge Leahy's opinion determining the scope and effect of the consent decree preceded by more than a year Judge Kloeb's opinion construing the consent decree.

III

Other points in the case, whether or not raised by the parties, do not require discussion.

We will make the following dispositions of the judgments and orders appealed from.

(1) The order of Judge Leahy allowing the filing of an answer by Shatterproof will be affirmed, no basis for reversal being present.

(2) The order of Judge Leahy denying Securit's motion to dismiss Shatterproof's defense of misuse will be affirmed for obvious reasons.

(3) The order of Judge Leahy denying Securit's motion to dismiss Shatterproof's second defense will be affirmed.

(4) The order of Judge Steel denying Securit's motion to file an amended complaint will be affirmed for the reasons stated by Judge Steel for denial of the motion.[19]

(5) The judgments dismissing counts I and IV and counts V and VI of Securit's complaint will be affirmed. Objection by Securit to the dismissal of Counts V and VI;

[19] See 166 F. Supp. at p. 827.

the unfair competition counts, was not pressed before us, although of course, it was not abandoned, the dismissal having been complained of in Securit's brief. We affirm on the basis of Judge Steel's opinion.[20]

(6) The order of Judge Steel enjoining Securit from taking any action in United States v. Libbey-Owens-Ford Glass Company, et al., Civil Action No. 5239 in the Northern District of Ohio, Western Division, "which will seek a determination, finding or any other type of adjudication or judicial expression as against Shatterproof which is in conflict with any one or more of the . . . . views" expressed by Judge Leahy at 154 F. Supp. 890, and specified in Judge Steel's order, will be affirmed.

20 See 166 F. Supp. 813.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit.

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 12706
No. 12739

THE AMERICAN SECURIT COMPANY
Appellant

vs.

SHATTERPROOF GLASS CORPORATION

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

Present: BIGGS, *Chief Judge*, and MCLAUGHLIN and KALODNER, *Circuit Judges*.

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the District of Delaware and was argued by counsel

On consideration whereof, it is now here ordered and adjudged by this Court ~~that the judgment of the said District Court in this case be, and the same is hereby~~ that the judgments and orders of the said District Court in these cases be, and the same are hereby affirmed, with costs.

Attest:

IDA O. CRESKOFF,
Clerk

July 14, 1959

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 12,706
No. 12,739

THE AMERICAN SECURIT COMPANY,
Appellant,

v.

SHATTERPROOF GLASS CORPORATION.

ORDER

Present: BIGGS, *Chief Judge*, and MCLAUGHLIN and KALODNER, *Circuit Judges*.

AND NOW, to wit, this 3rd day of August, 1959.

IT IS ORDERED that the opinion filed in the above entitled matter on July 14, 1959, be and the same hereby is amended as follows:

Line 17, page 4, strike out the word "Expensive" and substitute in lieu thereof the word "Extensive".

Line 29, page 17, strike out the phrase "I and IV" and substitute in lieu thereof the phrase "I through IV".

By THE COURT,

BIGGS
Chief Judge.

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 12,706
and
No. 12,739

THE AMERICAN SECURIT COMPANY,
Appellant,

v.

SHATTERPROOF GLASS CORPORATION.

SUR PETITION FOR REHEARING

Present: BIGGS, *Chief Judge*, and MCLAUGHLIN and KALODNER, *Circuit Judges*.

After due consideration the petition for rehearing in the above-entitled case is hereby denied.

By THE COURT,

BIGGS
Chief Judge.

Dated: August 24, 1959.

FILE COPY

Office-Supreme Court, U.S.
FILED
OCT 28 1959
JAMES R. BROWNING, Clerk

In the Supreme Court of the United States

OCTOBER TERM, 1959.

No. 440.

THE AMERICAN SECURIT COMPANY,
Petitioner,

vs.

SHATTERPROOF GLASS CORPORATION,
Respondent.

BRIEF FOR RESPONDENT
In Opposition to Petition for a Writ of Certiorari.

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In the Supreme Court of the United States

OCTOBER TERM, 1959.

No. 440.

THE AMERICAN SECURIT COMPANY,
Petitioner,

vs.

SHATTERPROOF GLASS CORPORATION,
Respondent.

BRIEF FOR RESPONDENT
In Opposition to Petition for a Writ of Certiorari.

FOREWORD.

The "questions presented" by the petition do not arise out of the record of this case and do not present, with accuracy, brevity, and clearness, the matters essential to a ready and adequate understanding of the case. On this ground alone, the Court has sufficient reason to deny the petition (Court Rule 23, subparagraph 4).

RESPONDENT'S STATEMENT OF THE CASE.

This case started as an ordinary patent infringement action in which petitioner charged respondent with infringement of four patents. The complaint was filed in the Delaware Court on March 7, 1955 and the Answer was filed May 10, 1955. In the answer, respondent alleged as its first defense misuse of the patents in suit by mandatory

package licensing practices (R. 35a)* and as its second defense violation of the terms of the Toledo Decree (R. 36a).

On July 25, 1955 respondent filed a petition in the Ohio Court in which it applied to the Ohio Court under the provisions of the Toledo Decree for determination of a reasonable royalty for the patents in suit in Delaware and for an order requiring petitioner to comply with the terms of the Toledo Decree (R. 19b).

On September 14, 1955 petitioner filed a motion in the Delaware Court to restrain respondent from proceeding in the Ohio Court (R. 86a). On October 6, 1955, on application of the United States of America, acting through its attorneys by direction of the Attorney General, the Ohio Court entered an order directing petitioner to appear and show cause why it should not be permanently enjoined from taking any action in the Delaware Court to prevent respondent from exercising the rights conferred on it by the Toledo Decree (R. 90a). On the same day, that is, October 6, 1955, the United States filed a paper in the Delaware Court entitled "Representation of the Interest of the United States" in which it requested the Delaware Court to suspend action in Delaware pending a hearing and determination of matters in Ohio (R. 87a). In an order dated October 10, 1955 (R. 89a), the Delaware Court adopted the suggestion of the United States and suspended proceedings in Delaware pending termination of the proceedings in the Ohio Court.

The order to show cause was heard by the Ohio Court on October 19, 1955 (R. 95a-138a). At the conclusion of the hearing, the Ohio Court rendered an oral opinion dis-

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* References to the petition for a writ of certiorari are "Pet. 1." References to the Appellant's Appendix in th Court below are "R. 1a" and to Appellee's Appendix are "R. 1b."

missing the order to show cause and stating that the Court would not accept jurisdiction of respondent's petition under the circumstances (R. 148a-149a). On December 13, 1955 a written order was entered by the Ohio Court in which it dismissed the petition of the United States and declined to accept jurisdiction of the petition of respondent (R. 92a).

Thereafter, the action proceeded in Delaware. Respondent's motion for summary judgment dismissing counts I-IV of the complaint was filed December 26, 1956 and granted July 19, 1957 (164a-177a). Respondent's motion to dismiss counts V and VI of the complaint on the grounds that they did not state a cause of action was filed February 20, 1957 (R. 14a, docket entry 123). A hearing was held on this motion on September 11, 1958 and the motion was granted in an opinion dated September 22, 1958 (R. 225a). These two motions disposed of every count in the complaint.

On July 9, 1958 petitioner filed a petition in the Ohio Court for construction of the Toledo Decree (R. 186a-203a). Acting on this petition the Ohio Court entered an order on August 19, 1958 directing the United States, Hamilton Glass Company and respondent to show cause why petitioner's petition to the Ohio Court should not be granted. A hearing was had on this order on September 16, 1958. The Ohio Court rendered an oral opinion (R. 251a-253a) and handed down a written "Order Construing Final Judgment" on September 29, 1958 (R. 254a-260a). Simple inspection will show the Ohio Court's written order of September 29, 1958 (R. 254a-260a) is materially different from the proposed order incorporated in petitioner's petition to the Ohio Court (R. 198a-203a). The "Order Construing Final Judgment" of the Ohio

Court dated September 29, 1958 was prepared by counsel for petitioner (R. 22b).

At the time of the hearing held in the Ohio Court on September 16, 1958 and thereafter petitioner was under the injunction of the Delaware Court not to try to obtain any finding, as against respondent, in conflict with the summary judgment opinion of the Delaware Court (R. 211a-222a).

Respondent did not participate in the hearing held before the Ohio Court on September 16, 1958; but, instead, merely appeared and presented the Ohio Court with a copy of the injunction of the Delaware Court (R. 245a).

ARGUMENT.

The Questions Presented In This Action.

The questions presented in this action are whether it constitutes patent misuse and violation of the terms of the Toledo Decree for petitioner to license its patents as a package only, to refuse to license less than the package, and to refuse to license its patents separately and individually. In other words, the questions are whether mandatory package licensing, as opposed to voluntary package licensing, constitutes patent misuse and a violation of the terms of the Toledo Decree. These are the principal questions decided by the Court of Appeals for the Third Circuit and to which it specifically addressed itself (Pet. 40).

The Patent Package.

The patents involved in the patent package are listed in Schedule A of the standard license form of petitioner (R. 63a). The package originally consisted of over forty patents. The patents in the package have been expiring

regularly so that the package, at this writing, consists of nine unexpired patents.

Conclusions of the Courts Below.

Both the District Court and Appellate Court concluded that there was no doubt that petitioner has followed a mandatory package licensing policy (R. 170a, 172a, Pet. 41). Both the District Court and Appellate Court concluded that there was no genuine issue as to the material facts and that summary judgment procedure under Rule 56 was proper (R. 164a, Pet. 46). Both the District Court and the Appellate Court concluded that petitioner's mandatory package licensing policy constituted a misuse of the patents in suit (R. 172a, Pet. 45) and a violation of the Toledo Decree (R. 175a, Pet. 46).

Significant Errors and Omissions of Petitioner's "Statement."

Petitioner's "Statement" is in error in that respondent never, in the Ohio Court, requested relief under the consent decree from petitioner's charges of infringement (Pet. 8). Respondent's petition to the Ohio Court appears in the Brief and Appendix of Appellee and is self-explanatory (R. 19b-21b). In its petition filed July 25, 1955 in the Ohio Court, respondent invoked the Toledo Decree and asked the Ohio Court to determine a reasonable royalty for the patents in suit in Delaware and to order petitioner to comply with the terms of the Toledo Decree (R. 19b-21b).

Petitioner's "Statement" also omits a most significant fact with respect to the early relationship between the Ohio and Delaware Courts, which is that on September 14, 1955 petitioner filed a motion in the Delaware Court to restrain respondent from proceeding in the Ohio Court

(R. 86a, 213a). The representation of interest of the United States in the Delaware Court, order to show cause of the Ohio Court, and the hearing of October 19, 1955 in the Ohio Court were the direct result of petitioner's September 14, 1955 motion in the Delaware Court. In that motion, petitioner argued that the Delaware Court had jurisdiction to the exclusion of the Ohio Court because of prior institution of the infringement action in the Delaware Court (R. 86a, 213a). Petitioner is now arguing the reverse proposition before this Court (Pet. 23 and 24). Petitioner's present position is thus diametrically opposite to the position taken by it in the motion filed September 14, 1955 in the Delaware Court.

The Questions Presented in Subgroup I.

Petitioner has presented a total of sixteen questions which are divided into three subgroups under Roman numerals I, II and III.

The questions of subgroup I are identified as "Relating to patent misuse in general," which is a correct title because these questions do not relate to this case. The heart of the misuse question resides in the mandatory or compulsory nature of petitioner's patent licensing policy. None of the first four questions presented specifies that the designated licensing policy is mandatory, as opposed to voluntary, and, therefore, none of them arises out of this case or properly defines the issue before the Court.

The Questions Presented in Subgroup II.

There are eight questions in subgroup II and they purportedly relate to consent decrees. The first question of this subgroup is whether it is the duty of the infringement court, which in this case is the Delaware Court, to

refer the question of violation of the antitrust decree to the court which entered the decree, which in this case is the Ohio Court. In effect, the Delaware Court did just this. It suspended proceedings and gave the Ohio Court an opportunity to pass on this very question as presented in respondent's petition to the Ohio Court (R. 19b-21b). However, the Ohio Court declined to accept jurisdiction of the matter (R. 92a, 93a). The error, if any, was made by the Ohio Court in declining to take jurisdiction. There is no action of the Delaware Court of which petitioner can complain.

The second question is whether one District Court has jurisdiction to rule that a party to an antitrust decree in another District Court has violated that decree. There is no conflict as to this matter. The Delaware District Court (R. 174a), the Court of Appeals for the Third Circuit (Pet. 46-47), the Court of Appeals for the Seventh Circuit (254 F. 2d at p. 895) and the Ohio Court (R. 248a) each answered this question in the affirmative. They all agreed that each court had jurisdiction to interpret the Toledo Decree.

The third question does not arise out of this record. The United States did not petition the anti-trust court to enjoin the patent owner from suing the infringer. The United States petitioned the anti-trust court to enjoin the patent owner from preventing respondent from exercising the rights conferred on it by the Toledo Decree (R. 90a). The Ohio Court declined to accept jurisdiction and the infringement action then proceeded in the Delaware Court (R. 92a).

The fourth question omits the critical fact circumstance of the case which is that the Delaware Court gave the Ohio Court the first opportunity to interpret the

Toledo Decree, but the Ohio Court declined to accept jurisdiction and exercise this opportunity (R. 92a). The Delaware Court then proceeded to interpret the Toledo Decree. The Ohio Court did not interpret the Decree until long after the Delaware Court had rendered its opinion, even though it had been given the first opportunity to do so. There was no outstanding ruling of the Ohio Court capable of binding the Delaware Court when the Delaware Court rendered its opinion. If petitioner proposes that the Delaware Court was bound to reverse itself after the ruling of the Ohio Court, then the question should so state.

The fifth and sixth questions, in substance, relate back to the first question and require no separate discussion.

The seventh question does not arise out of the record of this case. There is no problem with respect to the type of license which petitioner "declined" to offer.

The scope of the eighth question is very limited and does not arise out of the record of this case. The District Court and Court of Appeals below found that petitioner's mandatory package licensing policy constituted a violation of the Toledo Decree. Whether the mere issuance of petitioner's standard form license to a voluntary licensee constituted a violation of the Toledo Decree was not passed upon.

The Questions Presented In Subgroup III.

The questions of subgroup III purportedly relate to summary judgment. The first question in this subgroup, however, is a paraphrase of the first question in the patent misuse subgroup. Like the first question of the patent misuse subgroup, it omits the key fact that petitioner's package licensing policy is mandatory and not voluntary.

The second question in this subgroup parallels the first except that it relates to the Toledo Decree. It also omits the key fact that petitioner's package licensing policy is mandatory and not voluntary.

The third question in this subgroup does not arise out of the record before the Court. Both the District Court and the Court of Appeals found that petitioner's policy was to refuse to license less than all of its patents (R. 170a, 172a, 173a, 221a, and Pet. 41). Of petitioner's licensing policy, the Court of Appeals said:

> "No genuine issue of material fact lurks in this phase of the case." (Pet. 41.)

The fourth question is the only question in this subgroup which really relates to summary judgment matters. The question presupposes that the Court of Appeals for the Third Circuit and the Seventh Circuit each considered the same material, which is not the fact. Much of the material before the Court below was not before either the Court of Appeals for the Seventh Circuit or the Ohio Court. Moreover, the Court of Appeals for the Seventh Circuit specifically excluded some of the material before the lower courts (254 F. 2d at p. 893).

1. No Conflict With Decisions of This Court.

Petitioner contends that the decisions of the Delaware Court and the Court of Appeals for the Third Circuit are in conflict with *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U. S. 637 (1947) and *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc.*, 339 U. S. 827 (1950) (Pet. 13).

In *United States v. Paramount Pictures, Inc., et al.*, 334 U. S. 131 (1948), the same argument was presented that petitioner now presents with respect to the *Trans-*

parent-Wrap case. In answer to this argument, the Court said:

> "It is argued that Transparent-Wrap Mach. Corp. v. Stokes & S. Co., 329 U. S. 637, 91 L. ed. 563, 67 S. Ct. 610, points to a contrary result. That case held that the inclusion in a patent license of a condition requiring the licensee to assign improvement patents was not per se illegal. But that decision, confined to improvement patents, was greatly influenced by the federal statute governing assignments of patents. It therefore has no controlling significance here." (334 U. S. at p. 159.)

The *Hazeltine* case did not relate to mandatory package licensing and the Court specifically made note of this point. It said:

> "We are aware that petitioner asserted in its counter motion for summary judgment in the District Court that Hazeltine refused to grant a license under any one or more of its patents to anyone who refused to take a license under all. This averment was elaborated in the affidavit of petitioner's attorney in support of the motion. The point was not pressed in the Court of Appeals or here. In any event there is nothing available in the record to support the averment, since the affidavit in support thereof was made upon information and belief and the relevant portion, at least, does not comply with Rule 56(e) of the Federal Rules of Civil Procedure." (339 U. S. at p. 831.)

2. No Conflict With Decisions of the Fourth and Seventh Circuits.

Petitioner also argues that the decisions of the Delaware Court and Court of Appeals for the Third Circuit are in conflict with decisions of the Courts of Appeals for the Fourth and Seventh Circuits (Pet. 17).

The Baker-Cammack Hosiery Mills, Inc. v. Davis Co. case, 181 F. 2d 550 (4th Cir. 1950) did not pass on mandatory package licensing. The plaintiff originally followed a mandatory package licensing policy but before suit was filed and after protest by defendants, changed this policy and offered defendants an entirely different form of license. The Court of Appeals for the Fourth Circuit took note of this fact and decided the case on the basis of the last license offer of plaintiff. It did not pass on validity of the original mandatory package licensing policy. The Court said:

> "In considering this aspect of the matter it is important to bear in mind that much of the defendants' argument relates to the original licenses offered to the trade which were materially changed in 1948. We think that the case should be decided on the basis of the last offer, for even if the first offer was improper, the plaintiff was clearly within its rights in withdrawing and correcting it." (181 F. 2d at p. 571.)

In *Hazeltine Research v. Avco Manufacturing Corp.*, 227 F. 2d 137 (7th Cir. 1955), the defendant set up a defense that plaintiff followed a mandatory package licensing policy. The Court of Appeals for the Seventh Circuit, however, held that the evidence did not support the defendant's allegations. (227 F. 2d at p. 149.)

The same situation occurred in *Apex Electrical Mfg. Co. v. Altofer Bros. Co.*, 238 F. 2d 867 (7th Cir. 1956). The Court of Appeals for the Seventh Circuit held that the evidence did not support the defendant's allegations and that the plaintiff was not guilty of misuse of the patents in suit by block-booking. In doing so, the Court of Appeals for the Seventh Circuit made specific reference to *Hazeltine Research v. Avco Manufacturing Corp.* (238 F. 2d at p. 872.)

In the case of *Hazeltine Research, Inc. v. Admiral Corporation*, 183 F. 2d 953 (7th Cir. 1950), the question of mandatory package licensing was not presented. The case was presented on the same evidence as that before the Supreme Court in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U. S. 827 (1950). There was no evidence of mandatory package licensing and the question was not passed on.

3. Decision of District Court of Ohio.

The decision of the Ohio District Court interpreting the Toledo Decree was prepared in toto by counsel for petitioner (R. 22b). On September 16, 1958, when the question was argued before the Ohio Court, and thereafter, petitioner was under an injunction of the Delaware Court not to seek any finding in the Ohio Court, as against respondent, in conflict with the decision of the Delaware Court (R. 211a-222a, and 245a). If there is a conflict between the decision of the Ohio District Court and the Delaware Court, as petitioner argues, then it is quite clear that petitioner appears in this Court admittedly in contempt of the injunction of the Delaware Court.

The decision of the Ohio Court in fact constituted a modification of the Toledo Decree as opposed to a mere interpretation of it and petitioner so conceded during the argument of its cause before the Ohio Court (R. 23b, 24b). Thus the Third Circuit interpreted one Decree and the Ohio District Court interpreted a second modified Decree and there is no conflict because the respective Courts did not interpret the same Decree.

The term "modification" is used with the meaning given it by this Court in the case of *Hughes v. United States*, 342 U. S. 353 (1952).

4. No Conflict With Decision Of Seventh Circuit On Summary Judgment.

There is no conflict between the decisions of the Courts of Appeals for the Third and Seventh Circuits with respect to summary judgment procedure because the material before the Third Circuit was not before the Seventh Circuit and because different defendants were involved in these decisions, respondent being the defendant in the Third Circuit and Hamilton Glass Company being the defendant in the Seventh Circuit.

In the Seventh Circuit, defendant Hamilton Glass Company introduced the deposition of Robert Ingouf and certain exhibits included therein which had been taken in this action in the Third Circuit. In granting summary judgment for Hamilton Glass Corporation, the District Court for the Southern District of Indiana, Terre Haute Division, relied in part on this material. The Court of Appeals for the Seventh Circuit held that this material should not have been considered and reversed the decision of the Indiana District Court (254 F. 2d at p. 893).

It is thus apparent that the record before the Third Circuit was materially different from the record before the Seventh Circuit and there is no conflict.

With respect to summary judgment procedure, it should be noted that the party opposing a motion for summary judgment should call the Court's attention to the presence of genuine issues of material fact and make a showing, through affidavits or otherwise, which rebuts the showing made by the moving party. There is no affidavit or other showing in this case that petitioner's patent licensing policy is anything other than what it is represented to be by respondent.

Petitioner had ample opportunity to challenge respondent's showing by a contrary showing but failed to do

so. The summary judgment decision of the Delaware Court was handed down after extensive briefs and a full hearing. Subsequent to the decision of the Delaware Court, petitioner filed two motions for rehearing (R. 15a, 16a, docket entries 135 and 147). The first motion was denied by the judge who rendered the original decision (R. 16a, docket entry 144) and the second motion was denied by another judge (R. 18a, docket entry 163).

Petitioner is confusing the question by numerous references to material not considered by the lower Court. Of importance is what the lower Court considered and found, not what it did not consider and fail to find. Courts must act on the material before them and cannot operate in a vacuum. If there were a genuine issue as to any material fact, petitioner should have raised it. Having neglected to raise any such issues, the clear inference is that there are none and that the showing made by respondent truly reflects the material facts of this case.

There is no conflict with the decision of the Court of Appeals and no abuse of the summary judgment procedure.

5. No Conflict On Proposition That Courts Have Concurrent Jurisdiction Of Antitrust Decrees.

Under point 5 (Pet. 22-27), petitioner raises two propositions which it says should be determined by this Court.

Initially and with respect to jurisdiction, respondent has previously shown on page 7 of this brief that the Courts which this proceeding has touched are in unanimous agreement that every District Court has jurisdiction to construe the Toledo Decree if the matter is brought before it. Thus there is no conflict between the various Courts on this proposition.

Of equal importance is the fact that this Court has already considered and passed on this question in *United States Gypsum Co. v. United States*, 352 U. S. 457 (1957) which is referred to in petitioner's brief (Pet. 23). In the *United States Gypsum* case, this Court obviously recognized the jurisdiction of the Iowa Court to pass on the misuse and antitrust matters and directed its attention to questions of discretion and judicial procedure. This Court said:

> "We think it *appropriate* that these issues should be tried and disposed of by the antitrust court rather than the Iowa Court, * * *" (352 U. S. at p. 476, emphasis supplied.)

This Court has thus already passed on point 5(a) (Pet. 22) and found in the negative with respect to it.

As to point 5(b), the question answers itself. As a matter of comity, a Court in one circuit presumably gives great weight to a decision of a Court in another circuit but it certainly is not bound by it. Any other conclusion results in ridiculous legal situations. In the instant case, respondent gave the Ohio Court the first opportunity to construe the Toledo Decree when it petitioned that Court in July of 1955 (R. 19b). The Ohio Court declined to accept jurisdiction of the matter (R. 92a). Later on and after the Delaware Court had construed the decree, the Ohio Court also construed the Decree (R. 254a-260a). Assuming arguendo that this construction of the Ohio Court is in conflict with construction of the Delaware Court, the Delaware Court was certainly not bound to reverse itself and the Ohio District Court is certainly not a Court of Appeals in antitrust matters for the Delaware District Court.

6. Analysis of Decision Below Not Correct.

Under Point 6, petitioner argues that this Court should determine whether it is per se a patent misuse for the owner of a group of patents to charge the same royalty for use of some as for all of its patents (Pet. 27). The lower Court did not pass on this question. In the absence of decisions below, there is no reason for this Court to pass on the question.

The Courts below were satisfied that petitioner never offered to license less than the package for the same royalty rate as the package. Petitioner's Vice-President Ingouf stated on cross-examination that this was not petitioner's policy (R. 12b). The correspondence leading up to the license between petitioner and Eagle Convex Glass Specialty Company shows the same thing. Eagle Convex asked for a license under one patent (R. 15b) but was told that petitioner would not issue licenses under individual patents and so had to take a license under the package, which it did (R. 16b).

Petitioner's analysis of the essence of the decision below is simply not correct.

7. Instant Case Is Unique.

Under point 7, petitioner argues that the Court should determine whether package licensing is a violation of the standard provisions in many antitrust decrees (Pet. 28).

There is nothing in the record to indicate that the provisions of the Toledo Decree are standard or, if they are, how many other decrees incorporate these provisions and pose a package licensing question. Respondent doubts that any other party to a consent decree which incorporates licensing provisions identical to those of the Toledo Decree would be so presumptuous as to follow a

mandatory package licensing policy. The instant case is unique and its circumstances do not lend themselves to any sort of broad policy pronouncements.

CONCLUSION.

Petitioner seeks certiorari for sixteen questions. In the event that the Court grants the writ, respondent respectfully requests that the Court specify the questions to be considered.

Respondent submits that the writ should be denied because the questions presented do not reflect the opinion below and because petitioner has not established error in the Court below.

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FILE COPY

No. 440

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IN THE

Supreme Court of the United States

October Term, 1959

THE AMERICAN SECURITY COMPANY,

Petitioner,

v.

SHATTERPROOF GLASS CORPORATION,

Respondent.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

WITH APPENDIX

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IN THE

Supreme Court of the United States

OCTOBER TERM 1959

THE AMERICAN SECURITY COMPANY, *Petitioner,* v. SHATTERPROOF GLASS CORPORATION, *Respondent.*	No. 440

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioner prays that this Court grant rehearing of its order of November 23, 1959, denying the petition for writ of certiorari, and that a writ of certiorari issue to review the judgment of the Court of Appeals for the Third Circuit in the above-entitled case as prayed for in the petition filed September 30, 1959, herein. The time within which to file this petition was extended to January 15, 1960 by order of Mr. Justice William J. Brennan, Jr.

REASONS FOR GRANTING REHEARING AND ISSUING THE WRIT

The petition for a writ of certiorari showed the decision of the Third Circuit in this case is in direct conflict on the law with decisions of this Court and the Fourth and Seventh Circuit Courts of Appeals, and on the same facts with a

final decision of the Ohio District Court. Since petitioner believed that this Court's Rule 19.1(b) indicated that review of such conflicts would be granted, it limited the issues and points of conflict presented. Petitioner now respectfully presents substantial additional grounds for a rehearing not previously presented. The Appendix annexed to this petition establishes that the conflict affects long-standing licensing practices common to most patent owners, and that the questions involved are of wide general importance.

SUMMARY

1. Petitioner now presents a conflict not previously mentioned between the Third Circuit decision and the Second Circuit in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (1937). By ruling that the "last to expire" clause, standing alone, constitutes *per se* a patent misuse, the Third Circuit has declared invalid thousands of patent licenses which contain this common phrase (45)*.

2. The Ohio Court held that its antitrust decree had not been violated, and the Third Circuit held to the contrary. This conflict is of much greater importance than presented in the original petition. The Wall Street Journal reports that 105 decrees containing compulsory licensing provisions are affected by the rulings. The Appendix hereto (pages A-1 to A-15) shows that hundreds of companies owning thousands of patents are forced to speculate as to which of the conflicting decisions other courts will follow.

3. The Third Circuit's holding that in an infringement action a district court may adjudge a violation of

*References without a letter are to the Third Circuit's opinion in the Appendix to the original petition. References to Appellant's Appendix in the court below are "R. Ia" and to Appellee's Appendix "R. Ib".

another district court's antitrust decree on summary judgment and allow such adjudication as a collateral defense, is not only of great concern to hundreds of companies subject to these 105 compulsory license decrees, but the possible extension of such collateral defenses to other types of litigation may involve many more decrees.

4. Petitioner is bound by the contrary rulings of the Third Circuit and Ohio Court on the same facts, which force petitioner to risk violating one court order if it conforms to the other. Only this Court can settle this conflict, and extricate petitioner from an impossible situation.

5. The Delaware Court, in violation of rules governing summary judgment, made an erroneous finding of fact that there was mandatory package licensing, a conclusion contrary to facts stated within the opinions of both the Delaware and Third Circuit Courts. The Third Circuit's approval of the novel decision that it is *per se* a patent misuse for a patent owner to insist upon a fixed royalty for the privilege of using one or more patents in a group in the same art, and to decline to set separate royalties on individual patents in the group not only jeopardizes the legality of thousands of existing patent licenses, but prevents a voluntary binding agreement for a group royalty.

6. An additional ground for review not previously presented is the Third Circuit's affirmance, without discussion, of the Delaware Court's summary dismissal of counts V and VI of the complaint alleging unfair competition (48). The Delaware Court made the additional novel ruling that the same collateral defenses of patent misuse and violation of the antitrust decree deprived petitioner of its right to maintain a suit for unfair competition relating to the patents (Opinion of Judge Steel, R. 225a).

in spite of the Ohio Court's characterization of Shatterproof as a "wrongdoer" with "unclean hands" (R. 102a).

7. The *per se* rulings not only interfere with long-established licensing practices, but have created an impractical and unworkable rule of law which is actually contrary to the public interest, and has created great concern among patent owners and their counsel.

8. The questions presented do not involve patent validity or infringement, but contract law, patent licensing practices, patent misuse, and antitrust decree administration. The failure of this Court to settle now the conflict between the Third Circuit's novel decision and the decisions of this and other courts will itself create chaos and confusion, may invite treble damage suits and breaches of contract, and breed unnecessary litigation.

ADDITIONAL QUESTIONS PRESENTED ON REHEARING

The conflict with the Second Circuit decision in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (1937), presents the following additional question:

> 1. Does the provision in Securit's patent license which provides that the agreement should "continue in full force and effect to the expiration of the last to expire of any" of the licensed patents constitute *per se* a patent misuse?

The original petition did not raise the following important questions of procedure:

> 2. Was it proper procedure for the Delaware Court to find petitioner guilty of violating the Ohio Court's antitrust decree by summary judgment without a hear-

ing or trial, and then allow the violation as a collateral defense to a charge of infringement?

3. Where an antitrust decree contains the standard provisions for compulsory licensing at a non-discriminatory reasonable royalty which may be fixed by the antitrust court, and the antitrust court has held that the patent owner's licenses granting the privilege of using any, some or all its patents for a fixed royalty do not violate the decree, may a different court hold the patent owner *per se* guilty of violation of the decree by declining to offer a later applicant a lower royalty for a license under less than all the patents?

I

THE CONFLICT BETWEEN THE THIRD CIRCUIT AND THE OHIO COURT WILL CAUSE CONFUSION AND WASTE OF JUDICIAL RESOURCES

(1) The Conflict Places Petitioner in a Vise Between the Two Conflicting Decisions of the Third Circuit and the Ohio Court.

Since the filing of the consent decree on October 30, 1948 petitioner and all of its patents are subject to the continuing jurisdiction of the Ohio District Court. On September 29, 1958 the Ohio Court entered an order finding that "none of petitioner's licensing practices * * * and none of the provisions of its standard license contract violate the Consent Decree" (R. 260a). It ruled specifically that petitioner did not violate the consent decree by advising an applicant it would not license an individual patent for less than the royalty charged for all its patents (R. 259a).

This order construing the decree was a final judgment, appealable only to this Court by direct appeal (15 U. S. C.

Section 29), but the United States did not appeal.* Nor did Shatterproof appeal from the Ohio Court's order of February 6, 1956 denying its application for a new trial (R. 215a-216a). All of the evidence which was before the Delaware Court was before the Ohio Court. The Third Circuit specifically disagreed with the Ohio Court, and ruled that the practices in question did violate the consent decree (39, 46).

Examine the predicament of petitioner. The decision of the Ohio Court is binding upon petitioner throughout the jurisdictional limits of the United States. The decision of the Third Circuit is binding only within the three states of Delaware, Pennsylvania and New Jersey. Unless this Court reviews the Third Circuit decision, the United States is divided into two areas. But which decision should these district courts in the other 47 states follow—the Third Circuit or the Ohio Court?

(2) Effect of this Conflict on Other Parties to the Toledo Decree.

Examine the predicament of the other defendants to the Toledo decree. Judge Kloeb's construction makes this licensing practice lawful for all of them. Is it lawful for them to grant package licenses similar to petitioner's, or must they surrender the benefit of Judge Kloeb's ruling and submit to the Third Circuit's decision?

---

*"Where a Court of Appeals decision is in conflict with a decision of the District Court from which an appeal to the Supreme Court, and not to the Court of Appeals, is authorized, certiorari will be granted to the Court of Appeals to resolve the conflict." *Jurisdiction of the Supreme Court of the United States*, pp. 637-38. Robertson, Kirkham, Wolfson & Kurland, Matthew Bender & Co. (1951). See *Hughes v. United States*, 342 U. S. 353 (1952); *United States v. The Liquid Carbonic Corporation*, 121 F. Supp. 141, 123 F. Supp. 653 (E. D. N. Y. 1954), Reversed 350 U. S. 869 (1955).

(3) Effect of this Conflict on Other Parties to Similar Decrees.

Examine the predicament of the defendants in similar antitrust decrees. An analysis of the 105 compulsory licensing decrees listed by the Department of Justice, shows that 80 decrees involving about 200 companies have provisions similar to Section XIV of the Toledo decree* (Appendix hereto, pages A-7 to A-15). The Ohio Court ruled specifically:

> "Sections XIV and XVII of the Consent Decree do not require petitioner to set a royalty on each individual patent subject to said Decree. Petitioner may set a royalty on any, some, or all of its patents, and any dissatisfied applicant may apply to this Court for relief." (R. 259a)

If this Court does not settle this conflict, confusion, utter chaos, and waste of judicial resources will result. This situation confronts not only petitioner, and the other defendants in this particular decree, but also hundreds of companies named in the 80 similar decrees filed in various district courts throughout the country.

II

THE DECISION OF THE THIRD CIRCUIT IS ACTUALLY CONTRARY TO PUBLIC POLICY

The Delaware and Third Circuit Courts ruled, without examining essential facts, that Securit's practice of charging a fixed royalty was *per se* a misuse and "contrary to

*William D. Kilgore, Jr., Chief, Judgments and Judgments Enforcement Section of the Department of Justice Antitrust Division stated there are scores of consent judgments with provisions for reasonable royalties. He stated, "The way of ascertaining the reasonableness of the royalties due in cases of controversy is necessarily somewhat complicated, the consent judgment court being vested with ultimate authority in that respect; . . ." (Proceedings of the Section of Antitrust Law of the American Bar Association, April 1, 1954, page 115.)

public policy" (R. 172a). The Ohio Court which did examine the facts found the public interest had not been violated.

In obedience to the consent decree petitioner granted seven licenses which charged a flat royalty of 2¢ per foot of glass manufactured by the use of any, some, or all of petitioner's patents. The Third Circuit has ruled, contrary to the evidence before it, that it was a patent misuse for petitioner to decline to fix a royalty on each patent (R. 173a), in spite of the Ohio Court's finding:

> "13. After petitioner had granted licenses to the first applicants on all the patents for a royalty of 2¢ per square foot, it would have been very difficult, if not impossible, for it to fix a royalty on each patent at the request of a later applicant in view of the provisions of the Consent Decree prohibiting discrimination among licensees" (R. 257a).

Thus, the Third Circuit is compelling petitioner to do what the Ohio Court considers "very difficult, if not impossible." Is it in the public interest for the Delaware Court to hold that petitioner's refusal to fix a lower royalty for Shatterproof was a misuse when the Ohio Court held to do so would itself violate the non-discrimination provision of the decree?

The courts below ruled that it is *per se* a misuse for a patent owner to insist on charging the same royalty for the use of two patents as for one of them regardless of "the nature of their disclosures, whether for basic inventions or mere minor improvements" (43). The Courts below did not know what the patents covered, and did not care. But the Ohio Court, which had ten years' familiarity with the matter found:

> "12. Petitioner's patents related to a process of tempering glass. Some were basic patents, and

> others were supplementary. It would be very difficult and impractical to determine a royalty for each patent, or to divide the 2¢ royalty among petitioner's patents" (R. 257a).

The ruling is a handicap to most licensees, rather than a benefit. Where a process involves a great many patents, it is impractical if not impossible to accurately apportion the royalty among the patents. The value to a licensee of the right to use patented inventions is purely a question of business economics, not of antitrust law or public policy.

In many cases, if not in most, it is an *advantage* to a licensee to have the *privilege* of using whichever of the inventor's patents he finds useful. In addition, many licenses grant rights to future inventions, whose value is unascertainable at the time a license is executed. Where an owner of a patented process grants licenses freely to all competitors, which is the case here, each licensee *wants* to have the same rights as his competitors. The privilege of having rights to future inventions without increase in royalty is generally considered very valuable. The licensee loses nothing, since he does not pay unless he uses the patent.

III

WHETHER ONE DISTRICT COURT SHOULD BE AUTHORIZED TO ADJUDGE A VIOLATION OF ANOTHER DISTRICT COURT'S DECREE PRESENTS AN IMPORTANT QUESTION OF JUDICIAL ADMINISTRATION WHICH THIS COURT SHOULD DETERMINE

The Third Circuit made two rulings which respect to the Ohio Court's decree. First, it ruled that a violation of that decree could be used as a collateral defense to the suit for infringement. This was a novel principle, without

precedent, and presents an important question which this Court should determine.

The Third Circuit also ruled that the Delaware Court not only had jurisdiction to adjudge a violation of the Ohio Court's decree, but could make a finding contrary to the Ohio Court.

If violation of an antitrust decree is to be accepted as a new ground of defense to a suit for patent infringement, it is imperative that this Court rule whether the question of violation should be determined by the "mother court", as suggested by Judge Kloeb (R. 247a), and as indicated by this Court in *United States Gypsum Co. v. United States*, 352 U. S. 457, 476 (1957).

Where the United States has brought an antitrust suit in the public interest, and has obtained a decree intended to protect that public inerest (whether by consent or after trial is immaterial), is it in the public interest to permit other courts to find a misuse of patents subject to the decree, even though the court directly and *permanently* charged with the responsibility for protecting that same public interest had found to the contrary? The "subject matter" of the Delaware Court's ruling was (1) petitioner's patents, (2) its licensing policy, and (3) the Ohio Court consent decree. Since the Ohio Court is the Court which first acquired jurisdiction of the subject matter, it alone is the one which should construe petitioner's licensing policy and the consent decree, and no other court should interfere with its jurisdiction. See *U. S. v. Aluminum Co. of America*, 19 F. Supp. 374, 20 F. Supp. 608 (W. D. Pa. 1937), 302 U. S. 230 (1937).

On December 13, 1955 the Ohio Court dismissed the petition of the United States to restrain petitioner from continuing this infringement suit against Shatterproof (R. 92a, 214a). In spite of this the Delaware Court has

attacked the affirmative provisions of the consent decree of the Ohio Court and has reversed action taken by that Court by giving a different construction to the consent decree.

To test the importance of this question, assume that the decisions were switched—that the Ohio Court held the decree had been violated, and the Delaware Court that it had not. Would this mean that even though an antitrust court ruled a patent owner had violated its decree, the patent owner could nevertheless maintain infringement suits in other courts which declined to follow the antitrust court's ruling?

Since the subject matter of the defense in the Delaware Court is identical to the subject matter before the Ohio Court and since the Ohio Court first acquired jurisdiction, it alone should be the one to construe that decree in the interest of orderly procedure.

The specific ruling of violation which presents the conflict is of direct concern to parties to 80 decrees. The broader question whether any district court may adjudge a violation of another court's antitrust decree is of even greater importance, as it concerns not only the companies subject to all of the 105 compulsory licensing decrees, but the defendants in all other antitrust decrees, since the principle might be applied to situations other than patent misuse. It is not sound judicial administration to create a rule which breeds conflicting decisions, where uniformity may be assured by having violation of an antitrust decree determined only by the court which entered it.

IV

THE HOLDING OF *PER SE* MISUSE ON SUMMARY JUDGMENT ENDANGERS LONG-ESTABLISHED PRINCIPLES OF CONTRACT LAW GOVERNING PATENT LICENSES

(1) The Ruling Prohibits a Patent Owner From Insisting on Charging a Fixed Royalty for the Privilege of Using Any of a Group of Patents.

The evil of the ruling is its *per se* nature—a revolutionary doctrine—promulgated without consideration of any effect upon public policy. It forbids forever, and under all circumstances, a licensor insisting upon a single royalty for the use of "two or more apparatus or process patents in the same art, whatever the nature of their disclosures, whether for basic inventions or mere minor improvements" (43), regardless of the reasonableness of the royalty. For all practical purposes it even forbids a voluntary agreement to pay a single royalty.

This ruling upsets standard provisions of many patent licenses. An examination of authoritative form books discloses that the provisions of Securit's Standard Form License which were construed as constituting misuse are common in many text books. (See Appendix hereto, pages A-2 to A-7)

There is real danger that the Third Circuit's decision may not only invalidate many patent licenses, and cause great difficulty in negotiating new licenses, but may invite breaches of contract, and stir up unnecessary litigation.

The Third Circuit reached its erroneous conclusion in three steps. First, it jumped to the conclusion that there was mandatory package licensing, contrary to the facts it recited in its own opinion.* Second, it ruled that manda-

*The conclusion of mandatory package licensing was arrived at by violating the rules governing summary judgment. The Third Circuit based its conclusion on a single sentence from a long deposition of

tory package licensing is *per se* a misuse in spite of this Court's ruling in *Transpatent-Wrap Machine Corp.* v. *Stokes & Smith*, 329 U. S. 637 (1947) that complusory tying two patents together is not *per se* illegal.

The third step of the ruling is that granting a license under one patent at the same rate charged for a group is a matter of law mandatory package licensing. This conflicts with *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U. S. 827 (1950) where this Court carefully weighed the reasons and justification of the royalty provision involved in a much broader package license and ruled it was not a *per se* misuse. In so doing, it specifically ruled that the "tie in" principle was not applicable to such a royalty situation.

The practice of package licensing of patents has been studied recently by the legislative branch of the Government. The practice, as such, has not been condemned or found to be in violation of public policy.

A staff report of the Antitrust Subcommittee of the House Committee on the Judiciary stated:

> "The practice of licensing all or a number of an owner's patents in a package has become widespread. It avoids questions of infringement, bookkeeping, and the like. More frequently it has been necessitated by the complexity to which technology has progressed in a particular area." (Antitrust Problems in the Exploitation of Patents, a Staff Report to Subcommittee No. 5, Committee on the Judiciary, H. R. 84th Congress 2nd Session, December 31, 1956, page 14.)

Mr. Robert Ingouf (41), although the Seventh Circuit specifically ruled the use of that same sentence was not justified by the remainder of the deposition. (See Original Petition page 20). Furthermore, the Third Circuit itself conceded Securit had in fact offered to grant Shatterproof a license on less than all its patents. (33) Thus, there was a genuine issue of fact as to Securit's policy demonstrated within the opinion itself. Securit has always conceded its policy was to charge all licensees the same non-discriminatory royalty, but has vigorously denied forcing anyone to take a license on unwanted patents.

Securit's Standard Form License followed the standard forms shown in the Appendix hereto, pages A-2 to A-7. Paragraph 3(b) provided for a royalty for the use of "any" invention included in Schedule A of the agreement (R. 57a). Both the Delaware Court (R. 176a) and the Third Circuit (41 ftnt. 14) acknowledged that by letter to Shatterproof of March 19, 1953 Securit had offered to limit Schedule A "if you wish your licenses restricted to certain specified patents listed in the schedule (which is a complete list of our patents) we are able to meet your wishes" (R. 73a).

The real question here is whether a refusal to grant a lower royalty constitutes, as a matter of law, *compelling* an applicant to accept a license under unwanted patents, even though the licensee (1) pays royalties *only* when a licensed patent is used, (2) may contest the validity of the licensed patents at any time, (3) may cancel the license on thirty days' notice, and (4) has a right to request a United States District Court to grant him the lower royalty.

The rulings below deprive all patent owners of the private right of contract as approved by this Court. If petitioner had granted a lower rate to Shatterproof, *what* lower royalty would be legal, and *who* would determine the issue? Would 1.99999¢ avoid the *per se* misuse ruling? If not, what royalty would? The *per se* ruling eliminates all other facts, circumstances and reasonableness from consideration, and means that the right to determine the royalty rate has shifted from the patent owner to the licensee. It is clear that the *per se* doctrine cannot apply to this situation, as it is neither just nor a workable rule of law.

Support for this contention that the *per se* ruling is unworkable is found in the same staff report which stated:

> "When a group of patents is licensed as a package, it is usually easy to arrive at a royalty rate for the entire package, but major difficulties present

> themselves when a licensee, wishing to pick and choose among the patents in the package demands an adjustment in the royalty." (Antitrust Problems in the Exploitation of Patents, a Staff Report to Subcommittee No. 5, Committee on the Judiciary, H. R. 84th Congress 2nd Session, December 31, 1956, page 15.)

The ruling means that even where licensees have *requested* package licenses, and a patent owner has granted several, he is legally obligated to negotiate a lower royalty with a later applicant who wants less than the package. This endangers all such licenses, because of "most-favored customer" clauses.

This demonstrates that the *per se* ruling not only jeopardizes all existing package licenses *voluntarily* entered into, but precludes new voluntary agreements having any binding effect, because some other applicant may demand less than the package.

(2) The Ruling That the Expiration Clause By Itself Constitutes a Per Se Misuse Conflicts with the Second Circuit.

The Third Circuit decision also raises a serious question with respect to the validity of expiration provisions common to many patent licenses. (See Appendix hereto, pages A-2 to A-7.) The Third Circuit ruled that standing alone "Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties under patents which may expire to the expiration date of that patent most recently granted to Securit" (45).

The Second Circuit held in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.* 93 F. 2d 475 (1937) that there is a presumption that royalties are not to be paid after the expiration of a patent and that if the intention is to have

them continue longer the parties should phrase the contract in language from which such an intention may fairly be inferred. This holding of the Third Circuit is contrary to the decision in the Squibb case.

The Third Circuit committed error in introducing into its decision a finding of fact not warranted by the evidence, on which the Delaware Court made no inquiry, which was not argued by either side, and which had not constituted an issue in this case.

The Third Circuit misunderstood the clause to which the Delaware Court referred. The Delaware Court referred to Paragraph 7—the clause giving the licensee the right to cancel on thirty days notice (R. 59a). The Third Circuit mistook that for a reference to the "last to expire" clause, and upheld a condemnation that had never occurred.

This finding by the Third Circuit is a procedural error because it has on appeal, raised an issue for the first time and has interpreted a provision in a contract separate and apart from the other provisions of the contract. The Third Circuit proceeded to interpret this provision without affording petitioner an opportunity to be heard.

There is nothing in the record to support the Court's conclusion. The contract is silent as to the payment of royalties on individual expired patents contained in a group of patents covered by the license agreement, but Paragraph 8(a) construed in the light of Paragraph 5 sustains the interpretation that as each patent in Schedule A expires the obligations to pay royalties on that expired patent ceases, whereas the license agreement as to the patents which have not yet expired continues (R. 56a-63a).

This ruling is of a great concern to patent owners throughout the country, as it holds that such a provision constitutes a patent misuse. It creates the danger that many patent licenses may be declared invalid, with no opportunity for the licensors to defend the legality of their licenses.

CONCLUSION

The great importance of these questions to all patent owners and licensees, and to parties to antitrust decrees, is beyond doubt. They are clearly presented on the record now before this Court. If this Court does not review the decision below, there is great likelihood that many cases will come before lower courts involving these same issues, and ultimately this Court will have to settle the conflict. Undoubtedly, a great deal of judicial time and effort will be saved by having this review now.

For the reasons set forth above and in the petition for writ of certiorari, it is respectfully urged that rehearing be granted and that, upon such rehearing, a writ of certiorari issue to the Court of Appeals for the Third Circuit.

Respectfully submitted,

JOSEPH W. BURNS

JOHN L. SEYMOUR
Attorneys for Petitioner

CERTIFICATE OF COUNSEL

I hereby certify that the foregoing petition for rehearing is presented in good faith and not for delay and is restricted to grounds specified in Rule 58 of the rules of this Court.

JOSEPH W. BURNS
Joseph W. Burns
Attorney for Petitioner

THE WALL STREET JOURNAL,
Tuesday, November 24, 1959

High Court Bars Group Royalties For Patent Use

It Upholds Lower Court Ruling That Fees Must Be Based on Individual Patent

Consent Decree Involved

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — The Supreme Court left standing a lower court ruling that a patent-owner cannot force a licensee, who wants to use only specific inventions, to pay the royalty rate charged on an entire group of patents.

A patent grants the holder a legal monopoly over a particular invention. There's no law that requires a patent-holder to license his invention for use by others. But if he wants to collect royalties, under the ruling left in effect, he cannot force a licensee, who wants to use only specific inventions, to pay the royalty rate charged on an entire group of patents.

The Third Circuit Court of Appeals decision which the Supreme Court refused to review, held that group, or "package," licensing is a "misuse" of the patent right. The decision is particularly important under the antitrust laws because some 105 court orders now require defendants to license their patents as a result of Government antitrust suits.

Infringement Suit Rejected

The appeals court issued its ruling in rejecting a patent infringement suit brought by American Security Co. against Shatterproof Glass Corp., which used some of American's patented tempered glass processes but refused to pay the package royalty rate. Shatterproof sought to pay lower fees on only the specific patents it wanted to license.

American unsuccessfully urged the Supreme Court to reverse the decision, arguing it "shifts from the patent-owner to the licensee the right to determine the royalty rate for use of a patent."

The Supreme Court action may result in more legal trouble for American. The Court of Appeals ruled American's package licensing violates a 1948 consent decree with the Justice Department under which the glass-maker and other defendants agreed to open their patents for licensing at reasonable royalties.

This interpretation seems to conflict with a ruling by Federal District Judge Kloeb in Ohio, who rejected a Government charge that American is violating the 1948 decree. Without stating their plans, Justice Department officials said they could use the Third Circuit Court of Appeals decision to reopen the case.

The Appeals Court ruled a patent gives the owner monopoly power over the particular invention involved, and no more. "That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process which also happens to be patented," the court declared. "Each monopoly must stand on its own footing."

Patent Used as Lever

"If (a patent-owner) compels a licensee to accept a package of patents or none at all," the court concluded, "he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result."

When the Supreme Court refuses to review a decision, the lower court ruling is left in effect for the particular case involved. The High Court may decide to render its own opinion on an issue if it is raised in a later case. When the court agrees to review a ruling, it usually means a substantial Federal question or a conflict among lower court decisions are involved.

Extracts From Standard Texts On Forms of Patent Licenses

In the license forms set forth below, petitioner has underlined the provisions which are similar to Paragraphs 3(b) and 8(a) of Securit's Standard Form License. (R. 57a, 59a).

A. Forms and Their Use in Patent and Trade Mark Practice in the United States and Canada. Hineline , (1951) The Michie Co., Charlotte, Va.

1. The Inventor hereby grants to the Company the non-exclusive right to manufacture, use and sell in the United States and in all the territories and dependencies thereof, devices and methods constructed or operating in accordance with a part or all of the claims contained in the United States Patents aforementioned, and numbered respectively , and , excepting however that this agreement does not include the right to sell or use such apparatus in the following applications:

a. In the control of the concentration of acid during the process of manufacture by the process.

b. In the control of the manufacture of (pp. 140-141)

2. The Company agrees to pay to the Inventor, a royalty of 8% of the sale price on each sale of apparatus when embodying principles depending upon the value or changes in the value of when

a. Applying to the automatic control of industrial processes.

b. Employing the principle of 'before and after treatment' referred to in Patent No. and

specifically in Claims and of said patent.

c. Employing a temperature compensating device consisting of

d. Diluting or mixing other ingredients with the material under test for the purpose of

3. It is understood and agreed that in determining the amount of each sale the selling price of all elements sold by the Company in each sale and necessary for the apparatus to function in accordance with the stipulation under Clause 2 above shall be included in the sale price.

6. This agreement shall remain in force during the life of any and all of the patents aforementioned, unless terminated by the Inventor as provided in the following clause.

B. Gordon's Modern Annotated Forms of Agreement. Saul Gordon, Prentice Hall, (1940)

Whereas, the Licensor is the owner of or has the right to grant licenses under certain letters patent of the United States enumerated in "Schedule A" hereto attached, and hereby made a part hereof (herein called the "Licensed Patents") and

1. The Licensor hereby grants to the Licensee, and the Licensee hereby accepts from the Licensor, upon the terms and conditions hereinafter specified, a non-exclusive and, (except as hereinafter provided) non-assignable license to make, use and sell throughout the United States, its territories and dependencies New Process Sewage Tank (herein called the Licensed Product) under the Licensed Patents, to the full end of the terms for which the Licensed Patents are issued, unless sooner terminated as hereinafter provided.

(p. 72)

8. For the rights and privileges granted under the license, the Licensee will pay to the Licensor, in the manner hereinafter provided, to the end of the terms of the Licensed Patents or until this license is otherwise terminated, cancelled or terminated as hereinafter provided, a royalty (subject to revision as hereinabove provided) at the rate set forth in 'Schedule B' hereto annexed, and hereby made a part hereof. (p. 731)

C. Walker on Patents. Deller's Edition. Baker, Voorhis & Co., (1937).

1. The Licensor has granted, conveyed, and by these presents does grant and convey unto the Licensee the exclusive right and license to manufacture, sell and use apparatus embodying, employing and containing the inventions patented in the Letters Patent throughout the United States and its territories, to the full end of the term or terms for which said Letters Patent have been or may be granted, and any reissue or reissues thereof, unless this agreement is sooner terminated, as hereinafter provided. (p. 1515)

3. The Licensee covenants and agrees to pay to the Licensor, commencing 19 . . and thereafter during the continuance of this agreement, royalties on apparatus embodying and containing the said inventions, manufactured, sold and used by the Licensee, computed in the following manner: A sum based on a sliding scale, decreasing in accordance with the increased volume of sales of the Licensee, during any fiscal year, in accordance with the schedule hereinafter set forth, to wit:

No. of	Royalty	Minimum Royalty
Under 1,000,000	Seven cents per hundred	$ 500.
Over 1,000,000	Six cents per hundred	600.
Over 2,000,000	Five cents per hundred	1,000.
Over 3,000,000	Four cents per hundred	1,200.
Over 4,000,000	Three cents per hundred	1,200. (p. 1515)

10. It is covenanted and agreed that this agreement shall continue during the lives of the aforesaid United States Letters Patent, but that the Licensee shall have the right at any time, upon two (2) years notice in writing delivered to the Licensor by the Licensee, at his last known address (and that for that purpose, mailing of notice under registered mail shall be deemed sufficient), to terminate the said agreement, and at the expiration of the said two years from the date of such delivery of said notice, this agreement shall cease and terminate, for reasons stated in paragraph "9" hereof, or if the patents have become of no value to the Licensee in view of other patents or other improvements in the [redacted] industry and become null and void and of no effect and any and all rights which the Licensee shall have or possess under this agreement shall be by it relinquished, and surrendered to the Licensor; except that the Licensee shall have the right to sell all the apparatus already manufactured embodying said inventions, upon which royalties will be paid as aforesaid (p. 1517).

D. Modern Legal Forms. Belsheim. West Publishing Co. (1958)

"All the Chapters have been completely revised to conform to current statutory requirements and to reflect the current style of legal draftsmanship. Those forms which have stood the test of time have been retained without material alteration. However, those instruments that have become obsolete due to changes in the law and business customs have been eliminated. Duplication has been taken by a substantial number of new forms carefully selected to guide the lawyer in his everyday practice." (Preface to III.)

Whereas, I [redacted] by [redacted] all right, title and interest in and to certain inventions in Portable Light De-

vices and associated devices and in and to the United States and Canadian Letters Patent identified in the list of said patents hereto attached marked "Exhibit A" and by reference made a part hereof, said inventions and Letters Patent being hereinafter for convenience referred to collectively as International Patents; First Party's said right, title and interest being subject however to a certain restricted grant to Manufacturing Company as fully set forth in an agreement, a true copy of which is hereto attached marked "Exhibit B", and by reference made a part hereof, and

FIRST: First Party hereby grants to Second Party the exclusive right to manufacture and sell Dirigible Light Devices and parts thereof embodying said inventions, subject to the agreement above referred to as "Exhibit B" attached hereto and made a part hereof.

THIRD: The term of the grant hereinabove given in section First, unless sooner terminated as hereinafter provided for, shall extend to the end of the life of the last of the patents coming within the provisions of this agreement.

SIXTH: Second Party agrees to pay to First Party and First Party agrees to accept, as royalties on all Dirigible Light Devices which embody any invention or inventions disclosed and claimed in said International patents and other patents which may come within the provisions of this agreement is herein provided, or any of them, made and sold by Second Party during the life of the manufacturing and selling rights hereby granted to it at the rate of three per cent (3%) of the net amount received by Second Party for said Dirigible Light Devices and associated devices and or parts of such devices which are sold along with said Dirigible Light Devices, and on all such

associated devices and or parts which are sold by Second Party without said Dirigible Light Devices as repair and replacement parts for such Dirigible Light Devices, said net amount upon which royalties shall be computed shall be the invoice price of the goods less actual salesmen's commissions paid by the Second Party, which deducted commissions shall not be more than ten per cent (10%) of the invoice price of such merchandise, less discounts allowed for cash payments on such invoices, less Federal and or State excise tax levied against such goods, and less freight, prepaid or allowed, on the shipment of such goods (section 6002.1 pp. 255-256).

LIST OF ANTITRUST DECREES REQUIRING PATENT LICENSING AT REASONABLE ROYALTIES (1941 to 1959)

The Department of Justice advised petitioner's counsel on December 9, 1959: "From 1941 to January 1, 1959 there were 105 judgments filed in civil antitrust cases brought by this Department in which patent relief has been obtained, the relief being generally in the form of a requirement that the defendants concerned license certain patents for use in particular fields."

Petitioner's counsel have examined most of those decrees, and all of the antitrust decrees listed below provide for compulsory licensing at reasonable royalties, and authorize any applicant to apply to the district court for determination of the reasonable royalty. The list shows (1) the name of the case, and all corporate defendants, (2) the name of the court, (3) action No., (4) date of entry of the decree, (5) the product or process covered by the decree, and (6) the section of decree relating to patent licensing. All decrees were entered by consent, except when marked "(litigated)".

1. U.S. v. Whitehead Brothers Company (S.D. N.Y. No. 17-99; 1/7/42)
   Bentonite (Sec. 3).

2. U.S. v. Standard Oil Company of New Jersey (D. N.J. No. 2091; 3/25/42)
   Standard Oil Development Company
   Standard Oil Company of Louisiana
   Standard Catalytic Co.
   Jasco, Inc.
   Hydro Engineering & Chemical Co.
   Petroleum and petroleum products (Sec. IV).

3. U.S. v. General Electric Company (D. N.J. No. 1364; 4/10/42)
   Westinghouse Electric and Manufacturing Co.
   Lamps, lamp parts, lamp machinery (Sec. IV).

4. U.S. v. Aluminum Company of America (S.D. N.Y. No. 18-31; 4/15/42)
   The Dow Chemical Co.
   American Magnesium Corp.
   Magnesium Development Corp.
   Magnesium and magnesium products (Sec. V and VI).

5. U.S. v. American Bosch Corporation (S.D. N.Y. No. 20-164; 12/29/42)
   Diesel fuel injection equipment (Sec. IV).

6. U.S. v. National Lead Co. (S.D. N.Y. No. 26-258; 10/11/45) (Lit.)
   Titan Co., Inc.
   E. I. du Pont de Nemours and Co.
   Titanium pigments (Sec. 7).

7. U.S. v. Bendix Aviation Corp. (D. N.J. No. 2531; 2/13/46)
   Aircraft and marine instruments, devices, accessories, etc. (Sec. V).

8. U.S. v. General Electric Co. (D. N.J. Nos. 1364 and 2590; 3/7/46)
   Corning Glass Works
   Glass bulbs, tubing, cane, glass machinery and lamps (Sec. VI, VII and VIII).

9. U.S. v. The Diamond Match Company (S.D. N.Y. No. 25-397; 4/9/46)
   Berst-Forster-Dixfield Co.
   The Swedish Match Co.
   Matches, match machinery and match chemicals (Sec. 10, 12, 13 and 14).

10. U.S. v. Vehicular Parking, Ltd. (D. of Del. No. 259; 5/6/46 amended 7/16/53) (Lit.)
    The Karpark Corp.
    Dual Parking Meter Co.
    M. H. Rhodes, Inc.
    The Standard Meter Corp.

Peerless Oil and Gas Co.
Duncan Meter Co.
Parking meters (Sec. 2).

11. U.S. v. Libbey-Owens-Ford Glass Co. (N.D. of Ohio W.D. No. 5239; 9/5/46)
Corning Glass Works
Flat glass, plate glass, window glass, safety glass, sheet glass (Sec. VI).

12. U.S. v. American Air Filter Corp., Inc. (W.D. Ky. No. 574; 9/10/46)
Metal Textile Corp.
Filters and filter apparatus (Sec. IV).

13. U.S. v. Owens-Illinois Glass Co. (N.D. of Cal. S.D. No. 25861-C; 9/18/46)
Glass containers and closures and vacuum packing and vacuum-closing machinery (Sec. V).

14. U.S. v. American Lecithin Co. (N.D. of Ohio E.D. No. 24115; 2/17/47)
Lecithin (Sec. IV).

15. U.S. v. Hartford-Empire Co. (N.D. of Ohio W.D. No. 4426; 5/23/47) (Lit.)
Corning Glass Works
Owens-Illinois Glass Co.
Hazel-Atlas Glass Co.
Thatcher Manufacturing Co.
Lynch Corp.
Ball Bros.
Glass containers, feeders, forming machines, suction machines, lehrs, and stackers (Sec. 13).

16. U.S. v. Patent Button Company (D. of Conn. No. 1854; 6/26/47)
Fasteners, fastening machinery (Sec. V).

17. U.S. v. Timken-Detroit Axle Co. (E.D. Mich. S.D. No. 5642; 8/14/47)
Multiwheel units (Sec. IV).

18. U.S. v. American Locomotive Co. (N.D. Ind. T.H.D. No. 545; 10/4/47)
Universal Railway Devices Corp.
Spring plates (Sec. IX).

19. U.S. v. The Electric Storage Battery Co. (S.D. N.Y. No. 31-225; 11/24/47)
Willard Storage Battery Co.
Electric storage batteries, parts and accessories (Sec. VI).

20. U.S. v. Scovil Manufacturing Company (D. Conn. No. 1853; 2/17/48)
Fastening machinery and fasteners (Sec. V).

21. U.S. v. Automatic Sprinkler Co. of America (N.D. Ill. E.D. No. 46C1289; 2/20/48)
Automatic Sprinkler Corporation of America
Rate of rise devices and systems (Sec. IV).

22. U.S. v. The Gamewell Co. (D. Mass. No. 6150; 3/22/48)
Fire alarm systems (Sec. X).

23. U.S. v. Universal Button Fastening and Button Co. (E.D. Mich. S.D. No. 5860; 5/7/48)
Fastening machinery and fasteners (Sec. V).

24. U.S. v. White Cap Co. (N.D. Ill. E.D. No. 46c891; 6/17/48)
Closures and sealing machinery and accessories for applying closures to glass jars and containers (Sec. V).

25. U.S. v. General Cable Corporation (S.D. N.Y. No. 40-76; 8/25/48)
General Electric Co.
The Okonite-Callender Cable Company, Inc.
Phelps Dodge Copper Products Corp.
Fluid filled cables or accessories (Sec. VI).

26. U.S. v. American Optical Company (S.D. N.Y. No. 10-391; 9/17/48)
Ophthalmic goods (Sec. VI).

27. U.S. v. Line Material Company (E.D. Wis. No. 1096; 10/19/48)
Southern States Equipment Corp.
Fuse cutouts and drop-out fuse cutouts (Sec. V).

28. U.S. v. Allegheny Ludlum Steel Corp. (D. N.J. No. 4583; 10/25/48)
The Carpenter Steel Company
Stainless steel and stainless steel products (Sec. V).

29. U.S. v. Libbey-Owens-Ford Glass Company (N.D. Ohio W.D. No. 5239; 10/30/48)
Pittsburgh Plate Glass Co.
American Window Glass Co.
Fourco Glass Co.
Franklin Glass Corp.
Rolland Glass Co.
American Securit Co.
Blue Ridge Glass Corp.
Flat glass (Sec. X, XIII and XIV).

30. U.S. v. Technicolor, Inc. (S.D. Cal. C.D. No. 7507-WM; 11/24/48)
Eastman Kodak Co.
Color motion picture prints (Sec. IV and V).

31. U.S. v. Bendix Aviation Corp. (S.D. N.Y. No. 44-284; 12/22/48)
Westinghouse Air Brake Company

Braking systems (Sec. V and VI).

32. U.S. v. Scophony Corp. of America (S.D. N.Y. No. 34-184; 1/12/49)

Products, apparatus of installations for or relating to television (Sec. VI).

33. U.S. v. Phillips Screw Co. (N.D. Ill. E.D. No. 47C147; 3/28/49)
American Screw Co.

Screws and bolts (Sec. VII).

34. U.S. v. Owens-Corning Fiberglass Corp. (N.D. Ohio W.D. No 5778; 6/23/49)

Glass fibers, glass fiber products and any material, process, method or machinery used in the production or manufacture thereof (Sec. VI and VII).

35. U.S. v. General Electric Co. (S.D. Cal. C.D. No. 7899-M; 11/4/49)
Westinghouse Electric Corp.
Delta Star Electric Co.
Electrical Engineers Equipment Co.
Railway and Industrial Engineering Co.
A. B. Chance Co., Inc.
Cole Electric Company
Hi-Voltage Equipment Co.
Pacific Electric Manufacturing Corp.
Southern States Equipment Corp.

Disconnecting switches and ground switches (Sec. VII).

36. U.S. v. The Standard Register Co. (D. D.C. No. 36040; 12/13/49)

Platens and auxiliary equipment (Sec. VI).

37. U.S. v. Technicolor, Inc. (S.D. Cal. C.D. No. 7507-WM; 2/28/50)

Color motion picture prints (Sec. IV).

38. U.S. v. American Can Co. (N.D. Cal. S.D. No. 26345-H; 6/22/50) (Lit.)

Container closing machines, related equipment and auxiliary equipment (Sec. IV).

39. U.S. v. Continental Can Co., Inc. (N.D. Cal. No. 26346; 6/26/50)

Container closing machines, related equipment and auxiliary equipment (Sec. IV).

40. U.S. v. The Textile Machine Works (S.D. N.Y. No. 43-671; 10/9/50)
Berkshire Knitting Mills

Full-fashioned hosiery or hosiery machinery (Sec. VI).

41. U.S. v. Minnesota Mining and Manufacturing Co. (D. Mass. No. 8119 11/6/50)
Behr-Manning Corp.
The Carborundum Co.
Armour & Co.
Durex Abrasives Corp.
The Durex Corp.
Coated abrasive products and any method, material, equipment or process involved in the production or manufacture of such products (Sec. V).

42. U.S. v. United States Gypsum Company (D.C. No. 8017; 5/15/51) (Lit.
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Pangborn Corporation

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74. U.S. v. Western Electric Co. (D. N.J. No. 17149; 1/24/56)
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75. U.S. v. I.B.M. Corp. (S.D. N.Y. No. 72-344; 1/25/56)

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No. 440

IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

THE AMERICAN SECURIT COMPANY,
Petitioner,

v.

SHATTERPROOF GLASS CORPORATION,
Respondent.

MOTION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE* AND BRIEF OF SMITH, BUCKLIN AND ASSOCIATES, INC. IN SUPPORT OF PETITION FOR REHEARING OF THE PETITION FOR A WRIT OF CERTIORARI

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ARGUMENT:

The Court of Appeals committed error in not specifically holding that a licensor who will license his patents only in a package is not *per se* misusing such patents. The Court of Appeals' opinion denied a substantial right of all United States licensors and completely ignores the composition of the great majority of existing United States license agreements. Because patents involving new products or processes for which no alternatives exist, are now a rarity, package licensing may be the only practical means available to licensors to obtain a just reward for, and to protect, all the intellectual and industrial property rights involved in patent licensing agreements. The administration of license agreements will also be affected 6

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THE AMERICAN SECURIT COMPANY,

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SHATTERPROOF GLASS CORPORATION,

Respondent.

MOTION OF SMITH, BUCKLIN AND ASSOCIATES, INC. FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE*

The Smith, Bucklin and Associates, Inc. respectfully moves this Court for leave to file a brief as *amicus curiae* in support of the petition for rehearing of the petition for a writ of certiorari filed herein on or about September 30, 1959. This brief will be limited to the questions raised by the following excerpt from the opinion by the Court of Appeals:

> "Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result."

The Court of Appeals concluded that the District Court had not committed error in finding that package licensing arrangements constituted a misuse of patents and therefore a defense to a suit for infringement of such patents.

That holding affects or may affect thousands of license agreements between United States licensors and United States or foreign licensees in which two or more patents are involved. It ignores the composition of the great majority of such license agreements which commonly cover all pertinent intellectual property rights of licensors including patents licensed in package-licenses. The compulsory use of tied-in goods or commodities in connection with the patents concerned is not involved in the present litigation.

Petitioner has limited itself to the circumstances of its particular situation under the antitrust decree. The problems that are presented to patent proprietors not subject to such a decree have not been adequately presented. Petitioner has consented to this motion. Respondent has refused or failed to consent.

The Smith, Bucklin and Associates, Inc. is an Illinois corporation which acts as management consultants for twenty associations of manufacturers in twenty different industries with a total membership of upward of five hundred manufacturing companies.

The questions presented involve the interpretation of the terms "misuse of patents", "license agreement" and "package-license".

The problems presented in the petition herein are of extreme importance to your applicant and its clients and its member companies because the usual license agreement is a package of rights which may or may not include licenses under patents discussed during negotiations and thus a licensor might be accused of using one patent as a lever even if that patent is not included in the ultimate

license agreement. In fact all of the patents mentioned in the agreement may be future patents. Furthermore the package is indivisible. It must necessarily consist of know-how, technical data and patents, whether each is or is not spelled out. As a consequence it is very difficult to evaluate individually the know-how, the technical data and the individual patents covered by the agreement. It is essential to every United States licensor to know the conditions under which he can present package license agreements to prospective licensees. He must know whether the protection afforded him under the Constitution is to be whittled away or denied by the failure of the courts to take into consideration the present day conditions and procedures involved in licensing intellectual property rights. He must know how he can offer prospective licensees his intellectual property and inventions in a commercially feasible licensing agreement. The agreement may include one patent, multiple patents, or no patents at all, but always includes the licensor's know-how and technical data, most of which is not retrievable after the commencement of the agreement. Negotiations leading up to license agreements always include a discussion of patents, whether or not patents are specifically enumerated in license agreements.

At present, patents are of minor importance in the great majority of license agreements. To evaluate any one of a number of patents is difficult, but to evaluate one or more patents in a license agreement in which patents are incidental, is impossible. Hence this Court's decision in the present case inevitably will have a direct and important bearing upon every United States license agreement referring to two or more current or future patents. Many of these agreements are with agencies of foreign governments and treaty organizations. Upon the interpretation of such agreements may depend the ability of United States licensors to compete in the domestic and foreign markets.

It is of extreme importance that the law of this country be made certain as to the rights of licensors to utilize package licensing agreements where such are necessary to obtain a just profit on their inventions.

For the foregoing reasons, it is respectfully requested that the Court grant this motion and permit the filing of the attached brief.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

No. 440

THE AMERICAN SECURIT COMPANY,

Petitioner,

v.

SHATTERPROOF GLASS CORPORATION,

Respondent.

BRIEF FOR SMITH, BUCKLIN AND ASSOCIATES, INC. IN SUPPORT OF THE PETITION FOR REHEARING OF THE PETITION FOR A WRIT OF CERTIORARI

Statement.

Since the parties are described, the facts stated and the issues framed in the petition, there is no need to repeat them here.

ARGUMENT

The Court of Appeals committed error in not specifically holding that a licensor who will license his patents only in a package is not *per se* misusing such patents. The Court of Appeals' opinion denied a substantial right of all United States licensors and completely ignores the composition of the great majority of existing United States license agreements. Because patents involving new products or processes for which no alternatives exist, are now a rarity, package licensing may be the only practical means available to licensors to obtain a just reward for and to protect all the intellectual and industrial property rights involved in patent licensing agreements. The administration of license agreements will also be affected.

Where the licensor offers his patents only in a package and not on an individual basis the Court of Appeals concluded such practice was a *per se* patent misuse. The theory adopted is the same as that which runs throughout the tie-in cases where the licensor or seller attached the compulsory purchase of a physical product to the product which the purchaser or licensee desired to lease, purchase or manufacture under license. It seems clear that the Clayton Act's provision relating to tie-in agreements would not apply to a patent tied to a patent since Section 3 of that Act applies only to leases, sales or contracts of sale of goods, wares, merchandise, machinery, supplies or other commodities whether patented or unpatented. 15 U. S. C. § 14. However, assuming that the rationale of the tie-in cases applies to an agreement tying in patents or to a patent package license, for purposes of determining misuse, throughout the tie-in cases there appears to be a common denominator. By the tie-in arrangement, the seller or licensor has received some competitive advantage from the tie in arrangement, if not direct financial benefit. In addi

tion, the obligations of the licensee or purchaser to the licensor or seller have been increased by such tie-in agreements.

Where the licensor of a group of patents is prepared to charge the same royalty for any one of such group as would be charged for any other number of patents which he owns, neither of the above results occur. The seller will not receive an additional royalty regardless of the licensee's ultimate selection of patents to be exercised within the license. The licensee's obligations to the seller have not been increased regardless of the additional number of patents he ultimately determines to have included within his license.

Even assuming Section 3 of the Clayton Act, *supra*, applied to tie-in patents the package patent licensing arrangement is still not comparable to the tie-in contract challenged in *International Salt Co., Inc.* v. *United States*, 332 U. S. 392 (1947). There this Court found that it was unreasonable *per se* to foreclose competition from any substantial market. In package licensing of patents there is no foreclosure of competition from a substantial market for a tied-in product. This is not a situation in which, for example, salt sold as a tied product under a tie-in agreement would foreclose the market to other sellers of salt by the amount that was tied. There is no identifiable market as such which might be usurped by the granting of a package patent license. In fact, each patent grant announces the individuality or uniqueness of the patented invention and would thus not foreclose in any event a market for an already extant and comparable intangible. The licensee pays (other than minimum royalties) only when the packaged patents are used in making his own products. At such time he pays the same royalty for use of one or all patents.

The alleged tied-in products, *i.e.*, the totality of the patents in the package, certainly do not foreclose other

patentees from also offering their patents under license to the licensee of the package. This Court in analyzing tie-in agreements recognized that such agreements serve hardly any purpose beyond the suppression of competition but that one situation exists where such agreement might be justified. This situation arises where the protection of the good will of the seller may necessitate the use of tie-in clauses since the specifications for a substitute would be so detailed that they could not be supplied practically. See *Standard Oil Co. of California, et al.* v. *United States*, 337 U. S. 293, 295-296 (1949). The exceptional situation described in *Standard Oil Co. of California, et al.* v. *United States, supra*, is comparable to that of the multiple patentee who seeks to protect the intellectual property associated with one patent by inclusion of complementary intellectual properties contained in his other patents. The patentee, of course, also thus seeks to protect the underlying know-how and technical data related to all his packaged patents. In both the tie-in situation where good will is to be protected and the package patent licensing situation where valuable intellectual property is to be protected the package arrangement may be the only method by which such protection can be accomplished.

There are two areas of the antitrust law in which the *per se* doctrine of unreasonability is used to characterize and judge trade practices believed to be violative of such law. It is *per se* unreasonable for competitors to fix prices or otherwise combine in restraint of trade and it is *per se* unreasonable to foreclose competitors from any substantial market. Cf. *International Salt Co., Inc.* v. *United States, supra*. The package licensing of patents could only fall by implication within the latter category of practice. However, it is clear that the *per se* rule does not apply unless there has been foreclosure of a substantial market. This has not been shown to have occurred in the present litigation. It may be agreed that a violation of the antitrust laws need

not be found in order to make a finding of patent misuse. Cf. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488 (1942). However, where the licensor's course of conduct is not such as would automatically fall within the *per se* doctrine of unreasonability under the antitrust laws, were they to be applied, then the application of a *per se* misuse theory is equally inappropriate.

Even if it is assumed that the licensee is compelled to take such package of patents, when the licensee is under no additional royalty charge for unwanted patents in the package there is no discernible harm to his interests. The licensee is free to practice inventions which were previously closed to him by the licensor's patents. His area of permissible action is increased. The licensee's right of election to use or not use any of the patents in the package remains unchanged. The licensee is unrestrained in his selection both of the licensor's packaged patents and of such other patents as are offered by other licensors. In fact, by the licensing of the additional patents the licensee's freedom of choice is actually increased for there are fewer patent grants which he must avoid infringing. Under the circumstances, the licensor's reasons for package licensing should not be cast aside without consideration.

The application by the Court of Appeals of the *per se* rule of misuse in relation to package licensing has automatically cut off any consideration of the substantial practical reasons and necessity for such arrangements. The application of a *per se* rule of misuse to mandatory package licensing is unnecessarily harsh. In *International Salt Co., Inc.* v. *United States, supra*, the necessity for adoption of a *per se* rule was justified on the grounds that International's competitors were denied access, by the tying agreements, to a substantial market. Denial of market access to competitors is not an issue in the package licensing of patents.

There will be no necessity for such elaborate investigation into the reasons and necessity for package patent licenses as might have been precipitated in *Standard Oil Co. of California, et al.* v. *United States, supra,* had not the rule of *International Salt Co., Inc.* v. *United States, supra,* been adopted. Nor should such package licenses be condemned *per se* as against public policy as in the case of conspiratorial restraints such as price-fixing. Cf. *United States* v. *Socony-Vacuum Oil Co., Inc., et al.* 310 U. S. 150 (1940). The package patent licensor should be allowed an opportunity to present the very substantial reasons and justifications for such package licensing.

The reasons for package licensing are clear. It is impossible in most cases to divorce the patent from the technical know-how and expertise to which it is related. Many patents, if not all, owned by a licensor will be closely related and will also be based upon the underlying know-how and technical data possessed by the licensor. This know-how may be essential in the effective utilization of the patent or patents licensed.

The license of one patent or a group of patents may thus be made by the licensor at the same cost as that of the valuable underlying know-how and technical data. The benefit derived by the licensor from package licensing of his patents under such circumstances is primarily related to the protection of his technical know-how. The patents included in any package patent licensing arrangement will vary in importance. Basic patents, for which no alternative exists, are too rare for general consideration. Some patents will be important, others minor, and they will usually extend for varying terms. In addition, licensees quite often can not be certain which of the licensor's patents will be utilized in their operations subsequent to agreement. This is particularly true where the licensee is diversifying operations and moving into a new field of production.

Rather than attempting an individual evaluation of each patent's value under such circumstances, royalty payments are commonly predicated on the number of products produced by the licensee embodying or making use of the licensor's know-how, technical data and patents. Cf. *Automatic Radio Mfg. Co., Inc.* v. *Hazeltine Research, Inc.*, 339 U. S. 827 (1950). There are, of course, multifarious other methods for determining effective royalty payments related to the licensee's production or sales under the patent license.

Where there has been no foreclosure of a substantial market to competitors and there are reasons and justifications for the package licensing of patents it is respectfully submitted that the application of a *per se* rule of patent misuse based on such package licensing may result in the denial of substantial rights to the patent licensor. The licensor should be permitted to show the reasons and justifications for such package licensing of his patents.

CONCLUSION

The petition for rehearing of the petition for a writ of certiorari should be granted.

Respectfully submitted,

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Smith, Bucklin and Associates, Inc.
444 Madison Avenue,
New York 22, New York.

Dated: New York, New York,
January 15, 1960.

Certificate of Service.

I, LAWRENCE J. ECKSTROM, Counsel for Smith, Bucklin and Associates, Inc., *amicus curiae*, and a member of the Bar of the Supreme Court of the United States, hereby certify that on the 15th day of January, 1960, I served copies of the foregoing Motion and Brief on the following attorneys by mailing a copy to each of them in duly addressed, first-class, postage prepaid envelopes, to their respective addresses noted below:

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I further certify that on the 15th day of January, 1960, I served a copy of the foregoing Motion and Brief on the following attorneys by mailing a copy to them in a duly addressed, airmail, postage prepaid envelope to the address noted below:

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The attorneys, whose names and addresses are shown above, represent all the parties to these proceedings.

Lawrence J. Eckstrom